The Walt Disney Company

1997 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

(in millions of dollars, except for per share data)	1997	1996	Change
Revenues	**$22,473**	$18,739	20%
Operating income[1]	**4,312**	3,333	29%
Net income[1][2]	**1,886**	1,534	23%
Earnings per share[1][2]	**2.75**	2.48	11%
Cash flow from operations	**7,064**	4,625	53%
Stockholders' equity	**17,285**	16,086	7%
Book value per share	**25.76**	23.87	8%

[1] The 1997 amounts exclude the impact of a $135 million gain on the sale of KCAL and the 1996 amounts exclude the impact of a $300 million non-cash charge for the SFAS 121 accounting change.
[2] The 1996 amounts exclude the impact of $225 million of acquisition-related costs.

REVENUES

Dollars in millions

About the Cover: The tiger peering from the cover is actually one of almost 400 animals sculpted on the trunk of the 14-story-tall Tree of Life, the central icon of Disney's newest theme park, Disney's Animal Kingdom, set to open in late April at Walt Disney World. It took seven years from conception to complete the tree, with 175 tons of steel to make the branches alone. A total of 13 sculptors took 1-1/2 years to complete the sculpture of the animals which encircle the 50-foot diameter trunk.

LETTER TO SHAREHOLDERS

TO DISNEY OWNERS AND
FELLOW CAST MEMBERS:

Michael D. Eisner
Chairman and Chief Executive Officer

As the first rain of the El Niño season descends on Los Angeles, I find myself indoors and excited about writing my letter for the annual report. Happily, I understand more about the company than I do about El Niño. Actually I don't understand El Niño at all, but everybody talks about it all the time. If I am not washed away in the next couple of hours, I will have had the time to effuse about our company's phenomenal year just past, serving up a stream of numbers offering statistical support. That is something one is supposed to do in an annual report.

For example, I am supposed to make sure you are aware that our company had record revenues of $22.5 billion, representing a 20 percent increase over fiscal year 1996, that our Attractions division increased its revenues by 11 percent, achieving record revenues of $5 billion and operating income of $1.1 billion, that the Creative Content group had its best year ever, with revenues of $10.9 billion and operating income of $1.9 billion, that 106 new Disney Stores were opened, bringing the total to 636, and that ESPN continued to be the most successful sportscaster on the globe, contributing to Broadcasting's total of $6.5 billion in revenues.

Numbers may tell the story for some companies, but at Disney they are only the consequence of an ongoing creative process that really began 75 years ago when Walt and Roy first hung out the Disney Brothers Cartoon Studio shingle. For our company, financial success has always resulted from following the muse of originality and the taskmaster of quality.

So, in addition to a fiscal review, I would like to offer a little history lesson. To avoid having my children and yours simply skip to the glossy pages of pictures that

follow, let me change that to a little "Disney history lesson." And by the way, now you'll know why I have never been more excited about the prospects and possibilities of this extraordinary enterprise called The Walt Disney Company.

As I see it, there have been three broad phases in Disney's history.

The first phase covered the period from the company's founding by Walt and Roy Disney up until 1983. During this period, the Disney brand and the Disney company were one and the same thing. In other words, every one of our movies, attractions and toys went out under the Disney banner.

In 1983 the Touchstone Pictures label was launched to produce films for more than a family audience. Thus began Phase Two, during which a number of non-Disney labels were established or acquired, such as Hollywood Pictures, Miramax Films, Hyperion Books and Hollywood Records. As a percentage of our company's total revenues, these product lines represented a tiny fraction, and in some years resulted in the Disney brands actually accounting for 110% of the profits. I hate to say it, but in those building years, the non-Disney brands actually lost a little money. But, they bolstered the overall Disney brand by helping our studio become relevant once again in the Hollywood creative community. Now, it's not always worth the risk it takes to be relevant in some people's minds. And, to be sure, we were never irrelevant to our Disney audience. But we had become "old fashioned" to the creative community. As a result, it had become difficult to get great writers, directors, producers and actors to make Disney product.

Following Walt's death and prior to 1983, Disney had become to some people something of a filmmaking backwater, with major talent literally refusing to work here. We did not have Walt, and the company did not really replace him. The only way to replace him was to bring in many creative people, nurture them, and even pay them the way our competitors at the other film companies did. Touchstone Pictures helped change all that. The very first Touchstone film, *Splash*, attracted Tom Hanks to our lot. Tom returned to provide the voice of Woody in *Toy Story*. An early Touchstone film, *Down and Out in Beverly Hills*, starred Bette Midler and Richard Dreyfuss who also made the Touchstone movie *Stakeout* for us. Bette subsequently voiced Georgette in *Oliver & Co.* and starred in *Hocus Pocus*, while Richard starred in *The Wonderful World of Disney*'s recent production of *Oliver Twist*. Tim Allen came to Disney to star in Touchstone Television's *Home Improvement* and went on to be featured in the Disney hits, *The Santa Clause* and *Jungle2Jungle*, and provided the voice of Buzz Lightyear in *Toy Story*. Robin Williams' first involvement with our company was in the Touchstone films, *Good Morning, Vietnam* and *Dead Poets Society*. Robin subsequently served as the "filmic" host of the Animation attraction at the Disney/MGM Studios and the robotic host of the Timekeeper attraction at The Magic Kingdom. He then provided the voice of the Genie in *Aladdin* and starred in this year's holiday smash, *Flubber* (which was directed by Les Mayfield, who first came to Disney to direct the Hollywood Pictures film, *Encino Man*). Our non-Disney labels opened wide the doors of our Disney brand to top talent, and they've been coming through ever since. The point here is that once a talented person came into the company to work on a non-Disney project, there was a good chance that he or she would work on a Disney project. Frankly, in my 1970s jargon, we went from "out of it" to "cool" quite quickly. And now, that *The Lion King* on Broadway has become the creative smash hit that it is, directed by a "cool" *avant-garde* director, Julie Taymor, it seems that your company is "super cool." I think that is good. At least my kids think it is, and it certainly helps us to be the place for creative people to be.

Tsidii Le Loka as Rafiki in the breathtaking opening number of *The Lion King* on Broadway.

In 1995 we began Phase Three of our company's history with the purchase of Cap Cities/ABC. This was a major strategic acquisition that has involved a gratifyingly smooth two-year transition period. Now our two companies are fully integrated and working effectively together. ABC is a great company with great assets (including ESPN) which we acquired at a fair price. But, beyond this, the other purpose of the acquisition was, quite simply, to protect the mouse, to ensure that no other institution could block us from getting our shows access on the networks and on cable.

Imagine that your livelihood depends on commuting to work on a major highway. At first, you find the tolls are within reason. Then the tolls start going up. Finally, one day the guy in the tollbooth won't raise the gate for you at any price. But, meanwhile, you watch him let other cars zip by you onto the highway. It never quite got to that, but that was what we feared as we tried to get access for our shows on various television outlets. At Disney, we like to control our own destiny and concluded that the only way not to be at the mercy of these institutions ("gatekeepers") was to assure our own access if it came to that. So, we went ahead and bought the *best* U.S. television network there is.

The ABC broadcast highway now provides an open road for some outstanding new Disney shows and an avenue that will help our entire company travel successfully into the 21ST century.

And so we find ourselves into Phase Three of our company's history. Phase Three has a lot in common with Phases One and Two — the protection and advancement of the Disney brand within financially prudent parameters. Make no mistake about it, as large as our company has become, our single greatest asset is the same as it was at the very beginning — the Disney name. In a world of limitless choice, the value of a brand that consumers trust is inestimable, but that trust must continually be earned, which is why, having assured ourselves access on the ABC highway, we have proceeded to send a stream of quality Disney shows into people's homes.

Most of these shows have been produced for *The Wonderful World of Disney*, which returned to ABC Sunday nights this fall, and for *One Saturday Morning*, which is our new Saturday morning block of animated programs. *The Wonderful World of Disney*'s production of Rogers and Hammerstein's *Cinderella* achieved ABC's highest Sunday night ratings in over a decade and propelled the entire ABC Network to its first weekly ratings victory in six months. Meanwhile, Disney provides 3½ hours of children's programming, each Saturday morning, including the new two-hour block called *One Saturday Morning*, which has become an instant hit with kids, achieving a 38% share increase over the same time period the previous year.

The full benefits of this kind of Disney programming are impossible to calculate, because they are so wide-ranging. First of all, these shows reinforce the notion that Disney continues to be the place to turn for quality family entertainment. Second, the shows are profitable in and of themselves. To give one dramatic example: by the time our new version of *Cinderella* has played

around the world and been released on home video, it will be the single most profitable movie-for-television ever produced. Third, after their initial broadcast, these shows become part of the ever-growing Disney library, helping to build the Disney brand around the world. Finally, these programs allow us to reach our core Disney audience on a regular basis. And now we can regularly reach the Disney audience on the radio as well. In fact, Radio Disney, our new radio network, is thriving on 13 ABC-owned radio stations across the country. By the way, I love Radio Disney. It plays on 710 AM here in Los Angeles, and I listen to it all the time. I feel a little silly because we advertise it as radio for kids. What can I do? I like the music! Maybe I need grandchildren! Breck… Eric… (Anders, you're too young)… do you hear that??

Phase Three of our company's history has really just begun, and our reach is already truly amazing. Consider the week of November 2–8 in the United States. During these seven days, 34.2 million people watched *The Wonderful World of Disney*, 3.3 million people turned on *One Saturday Morning*, 3.6 million subscribers viewed The Disney Channel, 2.8 million listened to Radio Disney, 793,000 visited Disney theme parks, 810,000 made a purchase at a Disney Store and nine million copies of *Beauty & the Beast: The Enchanted Christmas* were shipped to video stores across the country.

And so it is that Phase Three puts our core Disney business in remarkably healthy condition. Access to our audience is assured. We are forging ahead with an array of new initiatives, such as the Disney Cruise Line and Disney's Animal Kingdom, which will both launch (in the case of the Cruise line, we mean this literally) in late April. Also in April, we will unveil Toon Disney, a 24-hour basic cable channel featuring all-Disney cartoons, as well as the new Tomorrowland at Disneyland. In the summer, the first DisneyQuest, which is something of a theme park in a building (a very large building), will open its doors. During the year, we will also open our third through sixth Disney Clubs, allowing more parents and their children to spend quality time in these unique play sites. In 1998, we will release two new feature animated films — *A Bug's Life*, coming from our partners at Pixar, the people who brought us *Toy Story* (they're also working on a *Toy Story* sequel for 1999) and *Mulan*, the story of a brave young girl in ancient China. By the way, last night at the Cineplex Odeon Theatre in Marina del Rey, California, the first public preview of this new animated film was held. With only 40% in color, it was the highest testing animated film at this stage that we've had in the last ten years. (I couldn't resist mentioning this.)

We will be releasing two new made-for-video animated films — sequels to *Pocahontas* and *The Lion King*. In the very recent and very successful tradition of major Disney live action event movies (i.e., *The Santa Clause*, *101 Dalmatians*, *George of the Jungle* and *Flubber*), we will open *Mighty Joe Young* in July. It has the potential to be the most successful release yet. Further down the road, there will be our second theme park in Anaheim, Disney's California Adventure, our second theme park in Japan, Tokyo DisneySea, and a wealth of other projects I am not allowed to talk about yet.

One of the advantages of Phase Three is that, while Disney may continue to be our *number-one* brand, it is no longer our *only* brand. In addition to Touchstone, Hollywood, Miramax, Hyperion Books, Mammoth Records, Lyric Street Records, the Anaheim Angels and the Mighty Ducks, we now also have the ABC Network, ABC News, ABC Sports, ESPN, major ownership in A&E, The History Channel, Lifetime Television and the E! channel helping to make us a true family of entertainment brands. By the way, synergy works both ways. Just as our company is enhanced overall by these new brands, these brands

The ESPN Zone is scheduled to open in Baltimore in the summer followed by Chicago and New York in 1999.

benefit from being part of our company. Certainly, ABC enjoys the values of Touchstone Television, which produces, for instance, *Home Improvement;* it also gets the benefit of Touchstone, Hollywood and Miramax movies that eventually go on an ABC movie night; and it benefits from the strength of the Disney company around the world to help sell its programs globally. In addition, the American audience knows that if they want Disney on broadcast television, they can find it on ABC.

It is true that since we purchased ABC, the network has dropped in prime-time ratings. This is certainly not what we would have preferred, but I got my start in the television business and learned long ago that, when it comes to prime-time ratings, what goes up always comes down again… before it goes back up. Actually once we get it back up, we will try to change that adage. What goes up can stay up… look at CBS from 1956 to 1970. However, it is important to know that ABC isn't just prime time. Hardly. For example, ABC dominates daytime, where it has held the number-one position in the all-important 18-to-49 demographic for two decades. ABC-owned stations continue to enjoy the best profit margins in the business. ABC local news shows lead in most markets. ABC radio stations and networks are consistent ratings winners. In other words, in the less volatile areas of the broadcast business, ABC is dominant. Prime time continues to be cyclical, and the bad news is that we haven't broken out of our down cycle. The good news: There's tremendous upside when it happens (and happen it will). The ABC Network represents 8 percent of the ABC corporate profits. I consider that small while they are doing badly and will consider it large when ABC turns it around.

Among our other brands, A&E, The History Channel, E! Entertainment and Lifetime are outstanding cable networks that are getting better and more popular every year. That leaves us with ESPN, which was practically worth the cost of the acquisition by itself. Okay, okay, I'm stretching the meaning of the word "practically." But, ESPN is an exceptionally valuable brand that resonates with consumers. Just as Disney means "family" to families, ESPN means "sports" to sports fans. Consequently, as with Disney, it is a brand that we can expand and enhance. And we are. In 1997, we opened the first ESPN Store at the same Glendale, California mall where we opened the first Disney Store in 1987. In 1998, we will open the first ESPN Zone in Baltimore, just a short walk from Camden Yards. This will be a restaurant that is much more than a restaurant, featuring luxury box-style eating areas, an ESPN broadcast booth, massive viewing screens featuring ESPN sports feeds and a giant sports entertainment center that should get armchair quarterbacks out of their armchairs. And, when fans enter the ESPN Zone, no doubt under their arms they'll have a copy of *ESPN Magazine,* which will begin hitting newsstands this spring. As with the Disney brand, we expect that these initiatives will lead to another and another. ESPN has already led to ESPN 2, which led to ESPN News, which led to the acquisition of Classic Sports. Indeed, it may turn out that ESPN *will* be worth the cost of the acquisition in itself.

Lest I paint too rosy a picture, let me take a moment to address a downside to the recent history of our company. Phases Two and Three have ushered in an era of tremendous success. But as we have become increasingly successful, we have also increasingly become a target for groups that want to leverage our strength with the public for their own ends, trade on our popularity if you will. I am not denying that some of their issues are valid some of the time nor suggesting that we are better than everyone else, but the fact is that these groups keep bringing their issues forward by focusing on Disney because it is more effective than citing one of our competitors. The issues they criticize us for mostly surround some of our non-Disney-branded films and our non-Disney television shows. It reminds me of the experience I sometimes have when I go to one of our movies with my wife Jane. Halfway through the movie, she will whisper to me, "How could you make this horrible thing?" I have probably had this conversation with her 20 times over 30 years. Each time I give her the same answer. "Jane," I say, "we just wanted to make the worst, most boring movie we could. We set out to do that. We hired the worst, most irresponsible director we could find. And we just let him do whatever he wanted to do!!!!!" She looks at me and smiles. She then repeats the question on the way home. Of course, the truth is that we don't want to make bad movies or television shows or publish bad books, but when you are trying to break ground creatively, you do sometimes fall short. That's risk, and we try to manage it well. In order to achieve a creative triumph like *The Lion King* on Broadway, one must endure other creative efforts that don't achieve their aspirations. To our critics, I can only say that I regret when we fall short.

That addresses the issue of quality. But let me also say something about "subject matter." In each of our divisions… Disney and non-Disney, we seek to be in business with the best and most creative talent we can find.

Disney's Young Musician Symphony Orchestra, composed of the country's best musicians between 8 and 12 years old, join to become the youngest orchestra to play at the Hollywood Bowl.

We then try to give them freedom to do their best work. We try not to censor them and I will always defend the right of the talented artists who work for us to push the limits of their imagination. We are all fortunate to be in a country that protects our right to free expression. We will not let a mayor, or a congressman, or a senator, or a particular interest group or even a President attempt to control our content. At the same time, we will not hide behind the protection of the First Amendment. We are editors, and we accept responsibility for the products we produce. If we sometimes make choices with which others disagree, it is not because we have failed to look hard at our decisions. Sometimes we will make the wrong choice. Hopefully we will more often make the right choice, but either way we will always make these choices carefully and responsibly and always within the context of each brand's audience. And rest assured that when we fail, the first call I will get is from my family, or the larger Disney family.

In a way, our critics are paying us the supreme compliment. What they're basically saying is that they hold Disney to a higher standard. And on this we can agree.

Disney GOALS participants, who qualify by their efforts in the classroom, proudly display a trophy representing their accomplishments in the ice-hockey program sponsored by Disney.

We do try to hold ourselves to a higher standard, both "on stage," where we try to produce entertainment that is a cut above, and "backstage," where we try to operate a company that is a responsible corporate citizen.

Last May, I sent a letter to General Colin Powell, who heads The President's Summit for America's Future. In it, I pledged that The Walt Disney Company and its cast members would contribute one million hours of volunteer community service through the year 2000.

Disney and ABC cast member volunteers, who are known as VoluntEARS (sorry, Mickey made us do it), will lead our effort, focusing on children and youth. The backbone of our pledge is the establishment of partnerships between each of the 460 North American Disney Stores and local affiliates of Boys and Girls Clubs of America. This is in addition to countless other distinctly Disney programs, such as "Give Kids the World," which helps over 4,000 families a year visit Walt Disney World so that an ill child can meet Mickey Mouse; the "Wonderful Outdoor World" program, which introduces inner city youth to the adventure of overnight camping; the Disney GOALS program, which underwrites the participation of underprivileged children in organized ice hockey; and Jiminy Cricket's Environmentality program, which teaches environmental issues to fifth graders throughout California.

Inside this report, you will find photos of some of the thousands of Disney cast members who donate their time every day as part of our commitment to General Powell. People like Jack Levic, who helps train guide dogs; Matthew Priddy, who is working with other Imagineers to help rebuild the arson-destroyed First AME Zion Church in Los Angeles; Genevieve Tonge, who coaches Special Olympians; and Morris Rashy, who reads to toddlers at a day care center.

"Backstage," we are also constantly working to increase the diversity of our workforce because that is the right thing to do. It is supremely important that Disney cast members reflect the full range of the audience we seek to serve. All of these "backstage" efforts comprise one more way that our company strives to be worthy of the Disney name.

I would like to discuss one final way that we try to earn the right to be called "Disney," and it is supremely important to our company's future. Part of the Disney legacy is innovation. Walt pioneered the first cartoon with sound, the first color cartoon, the first feature-length animated film, the first use of the multi-plane camera, the first use of stereophonic sound, the first 3-D cartoon, the first theme park and the first use of audio-animatronic entertainment. Indeed, one reason the company under-performed following the passing of Walt and Roy was because it began to retreat from innovation's cutting edge and contented itself with doing what had been done before.

A big part of our company's Phase Two and an even bigger emphasis as we embark on Phase Three is to be innovators once again. Many of you know about Walt

Disney Imagineering, which Walt established to design and build his theme park attractions. It is less well known that Imagineering now houses one of the foremost R&D think tanks in corporate America. Between Imagineering, Disney On-line, Disney Interactive, ABC and Walt Disney Feature Animation, we now employ over 600 engineers and scientists, who are helping to design the future of entertainment.

We have recently recruited for the new position of Disney Fellow a small group of distinguished scientists and technologists, each widely-known for contributions in the burgeoning information processing field. Computing power has been doubling every 18 months over the past 25 years, and the consensus is that it will continue to double at this pace for the foreseeable future. This has massive implications for our business. In recent years, the increased power of computers has made it possible to create dramatic new forms of entertainment ranging from a film like *Toy Story* to an attraction such as Indiana Jones Adventure at Disneyland to Internet sites like Disney.com. Still, I am convinced that these innovations barely scratch the surface of the opportunities that digital technology will be presenting.

To help us seize these opportunities, we now have in-house some of the nation's finest minds and most original thinkers who will help us wisely plot our course into the next century. As I write this, we have a task force of Imagineers and ABC technologists working to invent the next generation of television. I know this may sound presumptuous. But our deep involvement in broadcast television, cable television, the Internet and digital 3-D technologies, combined with our heritage as one of the world's leading entertainment content providers, makes us uniquely positioned to seize the possibilities that technology will be offering. In other words, we have expertise in areas as old as storytelling and as new as the latest gigabit computers. Could Phase Four be just over the horizon?

The new Frank G. Wells Building in Burbank, California commemorates Disney's late president.

Over 75 years, our company has gone from Disney Brothers Cartoon Studio to Walt Disney Productions and now The Walt Disney Company. Throughout these transitions, it seems clear that our company's underlying strength has come from support of our families, our colleagues and our shareholders. Whenever Phase Four begins, I only hope that we will continue to enjoy health, creativity, companionship and prosperity.

Of course, no one knows what the future will hold. We will have our triumphs and our setbacks. But, whatever the future brings with it, I promise you this: Our company will continue to make history.

Speaking of making history, I have one last thought. If you are in, near, or will be in or near New York City, see *The Lion King*. It is simply, supercalifragilisticexpialidocious…

Sincerely,

Michael D. Eisner
Chairman and CEO

DISNEY VOLUNTEARISM

THOUSANDS OF HELPING HANDS

The cast members and employees of The Walt Disney Company have a long history of community service. Volunteerism has become an important part of the Disney culture, spanning the globe from the Walt Disney World Resort to Disneyland Paris, from ABC and its owned television and radio stations to the Disneyland Resort, from The Disney Store and regional Disney offices to The Walt Disney Studios. Every week of the year, Disney VoluntEARS are out in force providing meals to elderly shut-ins, raising funds for breast and ovarian cancer research and mentoring children and young people — striving to make a positive impact on the lives of the individuals they touch.

During 1997, more than 40,000 Cast Members responded to the needs of their communities, contributing over 260,000 volunteer hours. Part of this time was in response to the call from the Presidents' Summit for America's future held in Philadelphia in April. Under the direction of General Colin Powell, with participation by former United States presidents, the nation was asked to renew its commitment to community service and to improving the lives of children and youth. Employees of The Walt Disney Company have committed to "One Million Magical Hours" of volunteerism through the year 2000 to America's Promise through a variety of programs across the country.

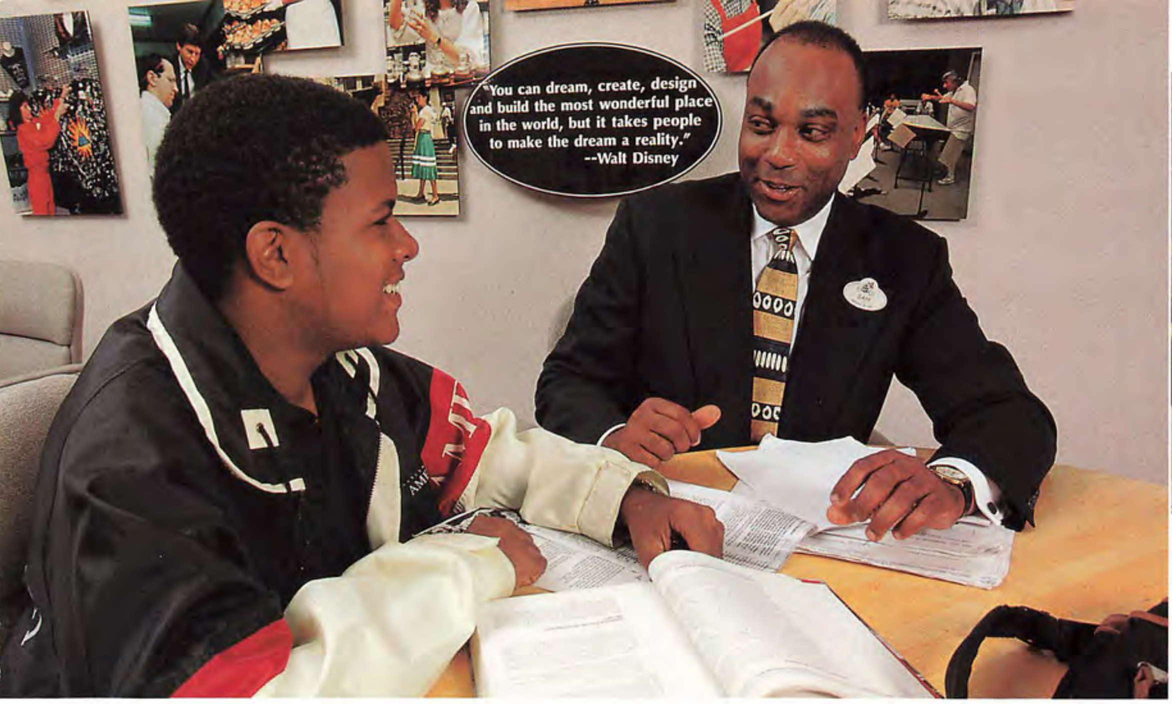
As part of the commitment to America's Promise, The Disney Store partnered with the Boys & Girls Clubs of America. This relationship pairs local clubs with stores in close to 200 cities across America. In General Powell's Report to the Nation on the first six months of America's Promise, he chose to showcase The Walt Disney Company commitment and the Boys & Girls Club partnership as one of four examples out of over 400 national commitments. During the press conference, the general, through a live satellite remote, interacted with Disney VoluntEARS working with the children at a North Miami club.

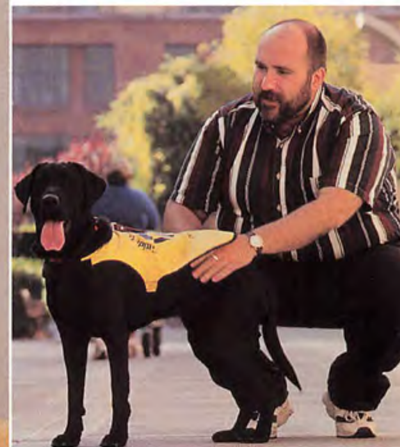
Some of the other Disney VoluntEARS Boys & Girls Club projects have included refurbishing clubhouses in Oak Brook, Ill., Philadelphia, Glendale, Ariz., and Nashua, N.H.; field trips to zoos, baseball games and movies in Kansas City, Kan., Greenville, S.C., Lansing, Mich., Wayne, N.J., and Atlanta, Ga.; and working with the kids at the clubs with homework and after-school activities in Fort Worth, Lynn, Mass., and Scarborough, Ore. In addition to the programs with the Boys & Girls Clubs, Disney Store cast members participate with many other charities across the country.

Organized volunteerism at Disney began at Disneyland Resort in 1983. As the VoluntEARS from Disneyland approach their 15th Anniversary celebration, they reflect back on years of such projects as turning inner city vacant lots into playgrounds, taking blind children to the Magic Kingdom, raising money for Children's Hospital of Orange County and joining 60 other local companies in rehabilitating non-profit facilities.

ABC's Volunteer Initiatives Program was established in 1987, formalizing community service that had been performed for years in New York, New Jersey and Connecticut. The ABC program now includes several of ABC's Owned and Operated radio and television stations across the country, including those in Washington, D.C., and Los Angeles, where employees build houses for Habitat for Humanity and perform coastal and park cleanups. Other volunteer activities across the country include holiday parties for children in shelters, preserving historic sites, working with AIDS patients and senior citizens, conservation and environmental projects, and mentoring and music education programs. One longtime relationship is with the Urban Women's Retreat, a safe haven for over 100 women and their dependent children fleeing domestic violence. VIP efforts led to the construction of a playground on the premises and a rooftop recreational garden. Volunteers regularly work with the women and children providing job skill training and other services to help them establish a life independent of their abusers.

Disney VoluntEARS from the Walt Disney World Resort every year engage in many community service activities in the Central Florida area. Three times a week, in partnership with the Coalition for the Homeless, Disney VoluntEARS cook and serve meals to families and adults who are homeless. During the summer, cast members participated in Back-to-School Fairs where approximately 4,000 disadvantaged children were given new T-shirts, shorts and school supplies in Orange and Seminole Counties. On



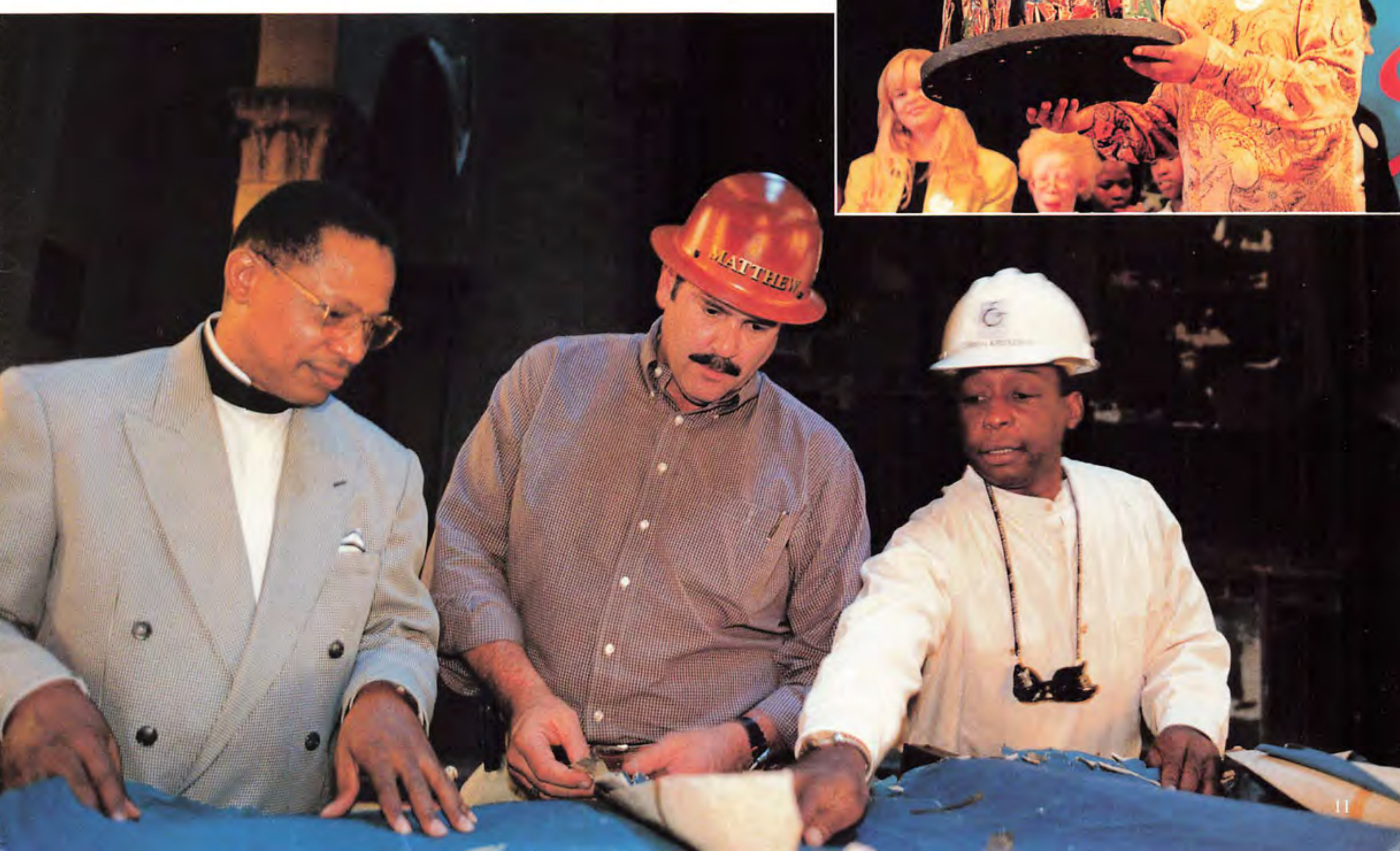


Above: Jack Levic of Touchstone Pictures and Disney Pictures helps train a guide dog, "Wink."

Above: Disney VoluntEAR Sam Gates, general manager of Blizzard Beach, discusses business philosophy with a young student.

Below: South African President Nelson Mandela greets his country's delegation for the fourth annual Children's Summit in June, co-hosted by Disneyland Paris.

The Walt Disney Company is helping fund and oversee the rebuilding of the arson-destroyed First AME Zion Church near downtown L.A. Here, Rev. Windle Tucker discusses the project with Matthew Priddy of WDI and Leroy Davis of A.D. and Associates.



Above: Disney VoluntEARS Lezie Nicholas-Rojano (left) and Mose Marseille help build new homes for families in need as part of Habitat for Humanity.

Right: Disney VoluntEAR Tiffany Sellers spends one day a week as a Classroom Consultant for Junior Achievement at an Orlando Middle School.

Lower right: The Children's Summit, presented by Disneyland Paris and UNESCO, united children from 40 countries thinking about important global issues.

Below: Anaheim Sports President Tony Tavares celebrates the reopening of a Santa Ana, Calif., park that the Anaheim Angels adopted and helped refurbish after it was heavily damaged by gang members.

Community Care Day, VoluntEARS were out in force landscaping a drug-treatment facility, painting the home of an elderly stroke victim and playing games with children at a carnival in a low-income neighborhood. Every year, many terminally ill children go to Central Florida to visit area attractions as their last wish. A resort was built in Kissimmee just for these very special visitors and their families called "Give Kids the World." Walt Disney World and the Disney VoluntEARS are the biggest supporters of this facility. VoluntEARS assist with photo sessions with Disney characters, interactive activities with the children and serving breakfast and dinner to the guests every day of the year. In addition to raising $105,000 for Junior Achievement, Disney Florida VoluntEARS read to toddlers and participate in many fund-raising walks.

Disneyland Paris' volunteer program is called Club Benevole. Programs include recording books on tape for the blind, raising funds for the Hospitals of France Foundation, delivering potted plants to elderly shut-ins and collecting clothes for the homeless. In celebration of the fifth anniversary of Disneyland Paris, Club Benevole members chaperoned 1,200 disadvantaged children from across Europe for two days of festivities at the park. Two cast members helped in granting a wish of an ill child from Holland by arranging a trip to the Vincennes Zoo for a special off-hours viewing of a panda bear. The veterinarian was on hand to talk about pandas and the special care they require.

Regional office VoluntEARing includes working with a children's center in London, assisting with a children's art festival in Vero Beach, Fla., participating in the March of Dimes Walk America in Chicago, landscaping two youth homes in Tampa, raising funds for children's programs in Dallas and participating in a blood drive in Hong Kong.

At sites in Burbank and Glendale, Calif., Disney VoluntEARS mentored in local middle schools, painted a mural at MacLaren Children's Center, formed a team for AIDS Walk Los Angeles, assisted with sporting events at the California Special Olympic Games, were classroom consultants for Junior Achievement and worked with abused children through Free Arts. Through the Los Angeles Probation Department's Gang Alternative Program, VoluntEARS work with youth who are in the criminal justice system. One VoluntEAR from The Disney Channel has mentored a young person for several years who has now graduated from high school and is mentoring another youth. Every year, Disney VoluntEARS assist with a holiday party at the Fred Jordan Mission in Los Angeles. Families from the area, many of them homeless, get a warm cooked meal, gifts of clothing, toys and food, view a show from Disneyland and have a special visit from Santa Claus.

Below: The Walt Disney Studios Fellowship Program selects new writers to learn about the film and television industry. Pictured here (l to r) are Maureen Driscoll, Federic Larreur, Dawn Comer, Dahlia Welsh and Scott Murphy.

Below: ABC VoluntEAR Genevieve Tonge coaches the Special Olympics, where everyone's a winner.

ENVIRONMENTALITY TAKES MANY FORMS AT DISNEY

Disney's Environmentality programs have been improving our air and water, our woodlands and wildlife habitat for much of the decade — from preserving 8,500 acres of Florida wilderness to rescuing sea turtles to recycling paint and paper, glass and plastic, metal and lumber. By recovering 80,000 tons of waste in California last year, Disney was singled out as one of the state's top 10 recyclers, and the effort improves every day.

The Environmentality program, while perhaps less up close and personal, also is doing truly remarkable things for the planet:

• Walt Disney World donates prepared, unserved meals from the parks and resorts to 60 non-profit organizations throughout Central Florida. Since 1991, the company has "recycled" more than a million meals that otherwise would have been discarded.

• A new program at Disneyland sends food scraps and other residue of the cooking process to a rendering company that transforms them into a high-protein animal-feed additive. Four tons a day is being diverted from landfills.

• Disney is one of the original sponsors of WOW (Wonderful Outdoor World), which President Clinton recently cited as one of the top three programs designed to touch the lives of inner-city children.

• Walt Disney Imagineering has recycled more than 4,000 gallons of water-based paint, donating it to the City of Glendale, Calif. The city then calls on Disney VoluntEars, who use it for graffiti eradication and community cleanup. It's a win-win situation — recycling the paint for public improvement instead of paying for its disposal saves Disney thousands of dollars annually.

• Disney participates in the Alliance of Motion Picture and Television Producers, which continues to emphasize recycling and source-reduction programs that far surpass California-mandated goals. All told, more than 25,000 tons of debris were rerouted from landfills in 1997 — everything from lumber and paper to toner cartridges and magnetic tape.

• ABC was praised by federal authorities for improving lighting in at least 90 percent of its upgradable square footage, all part of the Environmental Protection Agency's Green Lights program. The new, cost-effective lighting saves electricity, thus reducing power-plant pollution. Similarly, Walt Disney World is in the process of implementing the Green Lights program. Yearly energy savings will approximate $3.7 million.

• ABC also continued to exceed the industry standard for recycling solid waste at ABC Television Center in Hollywood. In one notable instance, it recovered more than eight tons of videotape reels in just four months.

• Disneyland designed and began using hand-held waste compactors to compress trash in each bin. The new devices, made from recycled plastic collected at the park, are easy to use and cost 75 percent less than the previous compactors.

• The Rivers of America attraction at Disneyland Paris has installed a water-treatment system that relies on microorganisms to keep the water clean. Since early 1996 not a drop of chlorine or other chemicals has been used, yet the water's appearance has improved noticeably.

• Disney studio sets are now built of North American Douglas fir and veneer instead of Brazilian rainforest products. All set pieces are catalogued by computer and routinely reused.

• A Walt Disney World supplier now recycles office paper from the resort in the manufacture of disposable food-service napkins used throughout the property.

• The Disney Channel emphasized Earth Day throughout April. Its programming included Celebrating the Earth Under the Umbrella Tree, Earth Day at Walt Disney World, Ferngully ... The Last Rainforest, Spaceship Earth: Our Global Environment and This Island Earth.

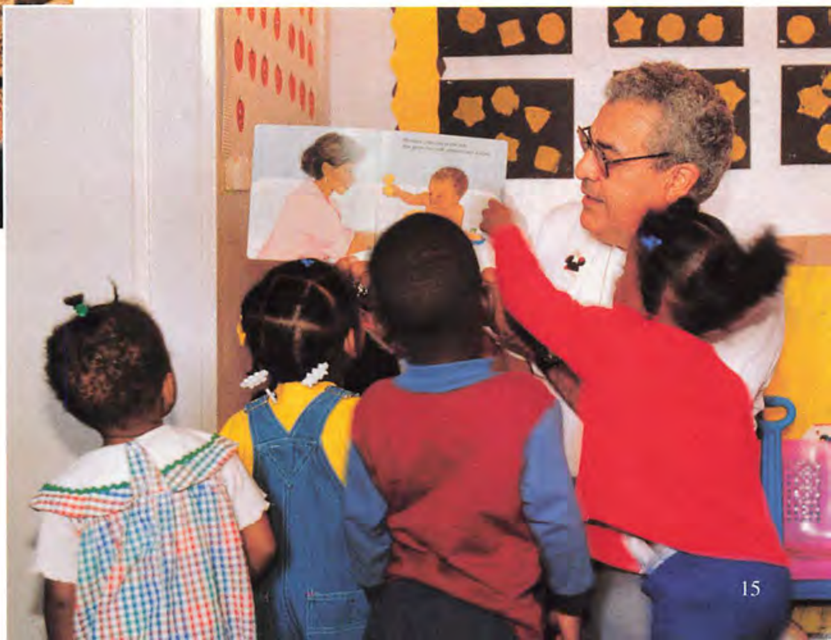
* Two company TV programs were honored at the Seventh Annual Environmental Media Awards Festival in the fall: *Home Improvement* was awarded the Board of Directors Award for Ongoing Commitment (EMA's most prestigious award) for consistently promoting environmental awareness. *Bill Nye the Science Guy* won in the Children's Live Action category for its program "Pollution Solutions."

Why does Disney work so hard at all this? The late Frank Wells, the company's president and chief operating officer until his death in 1994, put it best:

"In our heart of hearts," he said, "we know it's the right thing to do."

Left: Disney VoluntEARS Venessa Mamikunian, Scott Hunter and Monique Mamikunian participate in one of the Disney sponsored tree plantings.

Below: Retired cast member Morris Rashy reads once a week to toddlers at a day care center as part of Project WEB (We Explore Books) at Michelle's Academy, Orlando, Fla.



FINANCIAL REVIEW

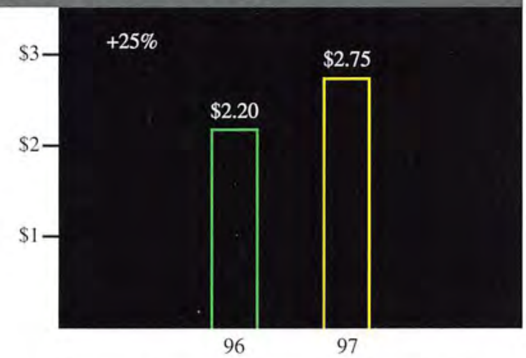
Richard D. Nanula
Senior Executive Vice President and Chief Financial Officer
The Walt Disney Company

The Walt Disney Company delivered record financial results once again in 1997, in a year that included the successful integration of Capital Cities/ABC, Inc. (ABC) and its first-rate assets, people and brands into the Disney family, thereby continuing to create value for Disney shareholders.

OVERVIEW The following discussion of the company's earnings excludes the impact of certain non-recurring items, consisting of a $135 million gain on the sale of KCAL recorded in 1997 and a $300 million non-cash charge related to the implementation of a new accounting standard in 1996. To further enhance comparability, the 1996 earnings are presented on a pro forma basis, which assumes the company acquired ABC at the beginning of the year.

In 1997, the company's earnings per share (EPS) increased to $2.75, 25% higher than the 1996 pro forma earnings per share of $2.20. Over the last three years, Disney's EPS grew at a compound annual rate of 20% from 1995, on a pro forma basis, through 1997.

EARNINGS PER SHARE



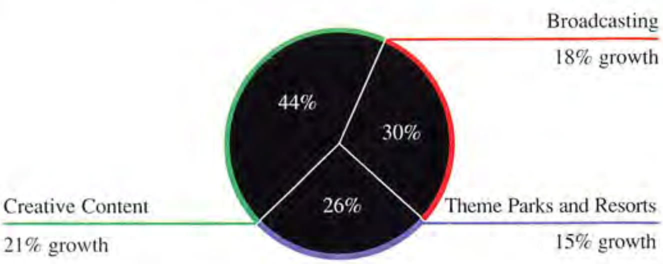
Disney's strong performance in 1997 is reflected in the company's 25% growth in earnings per share.

The amortization of intangible assets, including the goodwill associated with the acquisition of ABC, was $0.64 per share in 1997. For those who like to add back to earnings this non-cash charge, EPS before this amortization was $3.39 in the fiscal year just ended.

In 1997, 44% of Disney's operating income was generated by the Creative Content segment, with the remainder provided by Broadcasting (30%) and Theme Parks and Resorts (26%).

All three segments recorded double-digit operating income growth in 1997. Creative Content showed a 21% gain, Broadcasting improved by 18% and Theme Parks and Resorts reported a 15% increase over the prior year.

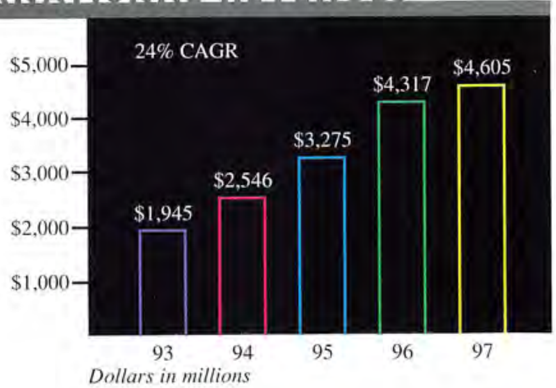
OPERATING INCOME BY SEGMENT



Each of Disney's three segments made significant operating income contributions in 1997.

INTERNATIONAL The company generates revenues from more countries each year as Disney and its brands continue to be welcomed around the world. In 1997, revenues from international sources, including U.S. exports, reached a new high of $4.6 billion, or 20% of total company revenues, which includes the full-year impact of the primarily domestic ABC businesses.

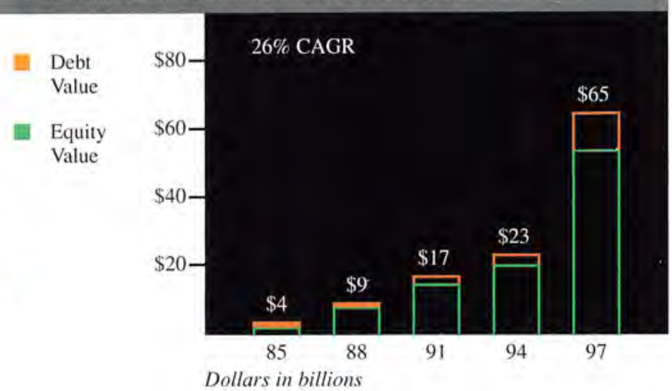
INTERNATIONAL REVENUES



Disney's international revenues have grown at a compound annual growth rate of 24% over the last five years.

CAPITALIZATION At fiscal year end, Disney had a total capitalization of $65 billion, placing it among the largest 25 corporations in the United States. Measured as of November 30, 1997, the company's total capitalization was even higher at $75 billion.

TOTAL CAPITALIZATION

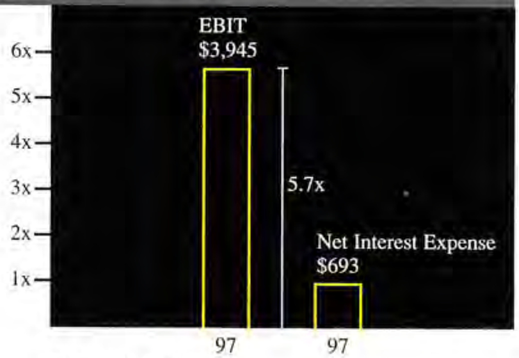


Disney reached a total capitalization of $65 billion in 1997, having grown at a 26% compound annual rate since 1985.

Disney shareholders benefit from the prudent leverage in the company's capital structure represented by total borrowings of $11.1 billion at year end. Attractive borrowing rates help to reduce the company's overall cost of capital, thereby creating value for shareholders.

Disney still has substantial financial flexibility to borrow, should sound business opportunities present themselves. As measured by the ratio of earnings before net interest and taxes (EBIT) to net interest expense, the company covered its interest costs by a factor of nearly six times for the year ended September 30, 1997.

INTEREST COVERAGE



Dollars in millions

Disney's EBIT of $3.9 billion covered its net interest expense almost six times in 1997, demonstrating the company's financial flexibility.

The company monitors its cash flow, interest coverage and its debt-to-total capital ratio with the long-term goal of maintaining a strong single-A or better credit rating. Standard & Poor's/Moody's rate Disney's long-term debt A/A2 and its short-term debt A1/P1. Additionally, as part of its overall risk management program, the company evaluates and seeks to manage its exposure to changes in interest rates on an ongoing basis using interest rate swaps and other hedging mechanisms.

CASH FLOW Cash flow from operations, including the full-year impact of the ABC acquisition, reached $7.1 billion in 1997.

CASH FLOW FROM OPERATIONS

Dollars in millions

Disney's cash flow from operations has increased at an annual rate of 35% over the last five years, reflecting growth in the company's businesses as well as the strong cash flow generated by ABC.

Over the past five years, Disney has generated total cash flow from operations of more than $20 billion. Disney's priorities for use of its cash flow continue to be investment for attractive shareholder return in new and existing businesses and repurchase of the company's shares.

In 1997, approximately $500 million, or less than 10% of total cash flow from operations, was spent to maintain existing assets. In addition, $2 billion of 1997 capital and investment spending was applied toward discretionary projects to fuel Disney's growth by expanding its existing brands and businesses, such as Disney's Animal Kingdom and Disney's Coronado Springs Resort in Florida and The Disney Store across the U.S. and abroad; by investing in businesses such as cable network E! Entertainment and Web site producer Starwave; and funding new initiatives that extend the company's key brands, such as Disney Cruise Line and Club Disney.

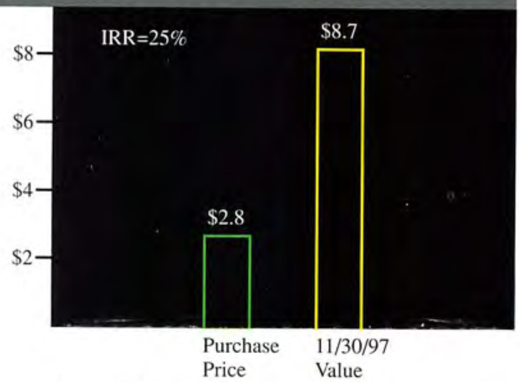
SHAREHOLDER PAYOUT Disney paid out to its shareholders almost $1 billion through dividends and share repurchase in 1997.

In January 1997, Disney's Board of Directors voted to increase the company's quarterly dividend by 20% from $0.11 to $0.1325 per share. The company paid out $342 million in dividends to Disney shareholders in 1997.

The repurchase of Disney stock has created significant value for the company's shareholders, in addition to funding stock-based employee benefit programs. Disney invested $633 million in its own stock in fiscal year 1997, repurchasing approximately 8.5 million shares at an average price of $74¾.

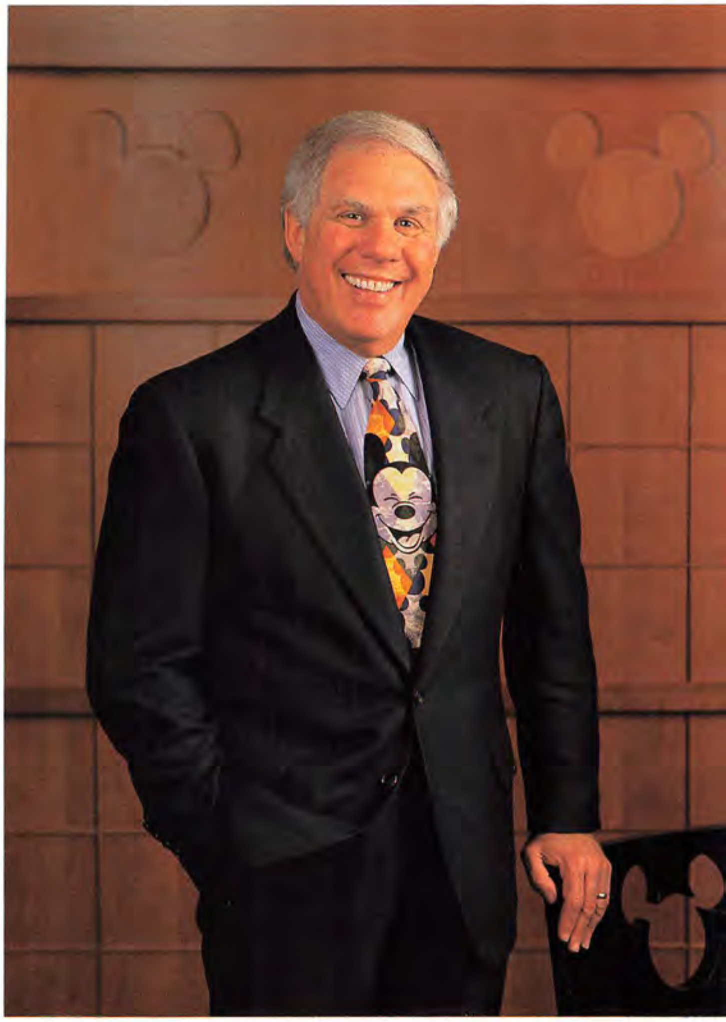
Since fiscal 1985, Disney has invested $2.8 billion to buy back 92.1 million shares at an average price of approximately $30. Measured as of November 30, 1997, these shares were worth $8.7 billion for an annualized return of 25%, exceeding the stock market return of 18% as measured by the Standard & Poor's 500 index over the same timeframe. As of the fiscal year end, Disney had authorization from its Board of Directors to repurchase an additional 87.8 million shares.

SHARE REPURCHASE SINCE 1985



Dollars in billions

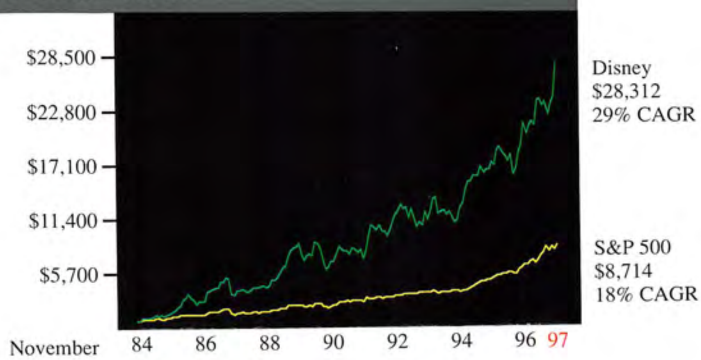
Disney's share repurchases since 1985 have resulted in a 25% rate of return for shareholders.



Sanford M. Litvack
Senior Executive Vice President and Chief of Corporate Operations
The Walt Disney Company

TOTAL RETURN TO INVESTORS As a result of Disney's financial performance and earnings per share growth — driven by expansion and extension of existing brands and businesses, investment in new businesses and share repurchase — the return to long-term investors in Disney stock has surpassed the return delivered by the market overall. An investment of $1,000 in Disney stock on November 30, 1984 — including reinvestment of dividends — was worth $28,312 on November 30, 1997, providing a 29% compound annual return. A similar investment in the Standard & Poor's 500 would have been worth $8,714 over the same timeframe, representing an 18% annual return to investors.

$1,000 INVESTED IN DISNEY vs. S&P 500

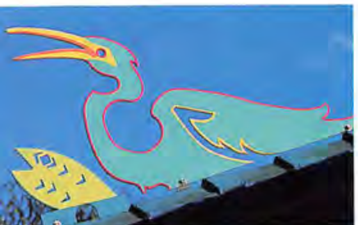


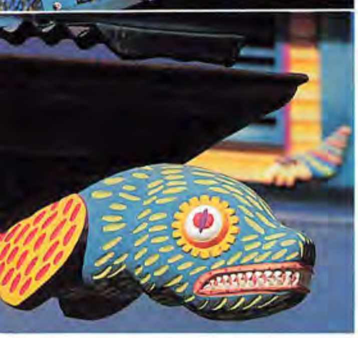
Assuming dividend reinvestment

The growth of Disney stock since 1984 represents the solid financial performance of the company over this time period.

ANIMAL KINGDOM OPENS IN SPRING

DISNEY'S ANIMAL KINGDOM A pride of lions, silently prowling the tall grasses of the savanna . . . a young deer taking fragile, halting steps toward a forest stream . . . a flock of vibrantly plumed tropical scarlet macaws piercing the moist air of the rainforest with their shrill voices. These are some of the wonders that will greet guests as they discover the next generation in Disney entertainment — a theme park that celebrates a small and beautiful and fragile world.





The world's enduring love for animals is the inspiration for Disney's Animal Kingdom, which will tell the story of all animals — real, imaginary and extinct — with thrilling attractions, dramatic landscapes and close encounters with exotic creatures. Disney's newest theme park will open in late April at the Walt Disney World Resort. Home to more than a thousand live animals, Audio-Animatronics creations and classic characters, the new park will cover 500 acres.

Designed and created by Walt Disney Imagineers, the park has among its goals educating guests about endangered species and global conservation while providing a natural setting for wildlife.

Guests will embark on many journeys within the park — some by boat, some by safari vehicle and some on foot — to discover both real and exotic animals in attractions such as Kilimanjaro Safaris, and creatures of the distant past in DinoLand U.S.A.

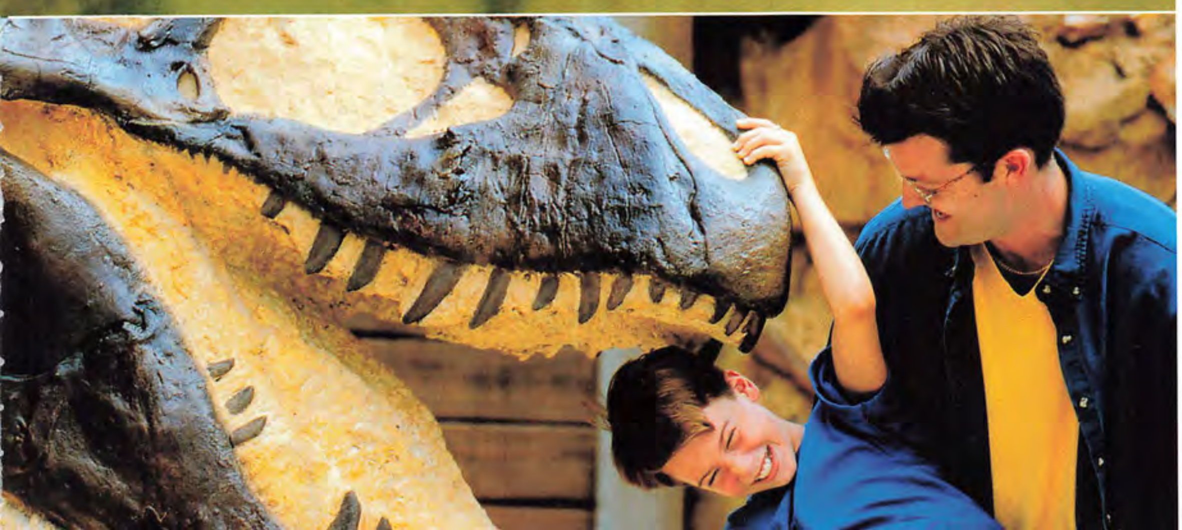
Guests will enter Disney's Animal Kingdom through The Oasis. Colorful and unusual animals inhabit this lush landscape of streams and grottoes, waterfalls and glades. The feel of the cool mist, the scent of the flowers, the sight and sound of exotic animals all combine to immerse guests immediately in the beauty and wonder of nature.

The crossroads of adventure in the park is Safari Village. This island of tropical greenery and equatorial architecture is the hub through which guests pass to reach other lands. Safari Village is encircled by Discovery River, where guests can board launches to journey past the forbidding Dragon Rocks and brave steaming geysers and mythical creatures on their way upriver.

Towering 14 stories above Safari Village is the Tree of Life, 170 feet in diameter at its root base and surrounded by shimmering pools and greenery alive with a host of birds and small mammals. The trunk of the tree is intricately carved with a swirling tapestry of animal forms that symbolize the richness and diversity of life on Earth (see cover).

This majestic setting is also home to enormous fun. Guests step inside the huge trunk to experience a 3-D adventure about creatures of a much smaller scale: insects. Based on *A Bug's Story*, an upcoming animated film from Disney and Pixar — the creators of *Toy Story* — the humorous film and special-effects-laden theatrical experience provides a bug's-eye view of the world.

The journey continues with a celebration of America's fascination with dinosaurs in DinoLand U.S.A. This area features the Boneyard playground, a rambling open-air dig site filled with so many fossils that kids can slide, bounce and slither through the bones of *Tyrannosaurus rex*, *Triceratops* and other prehistoric reptiles.



Above: A worker applies the finishing touches to a building in Harambe, a modern-day village.

Top left: Animals throughout history, including prehistoric, mythological and endangered species, are depicted on the Tree of Life.

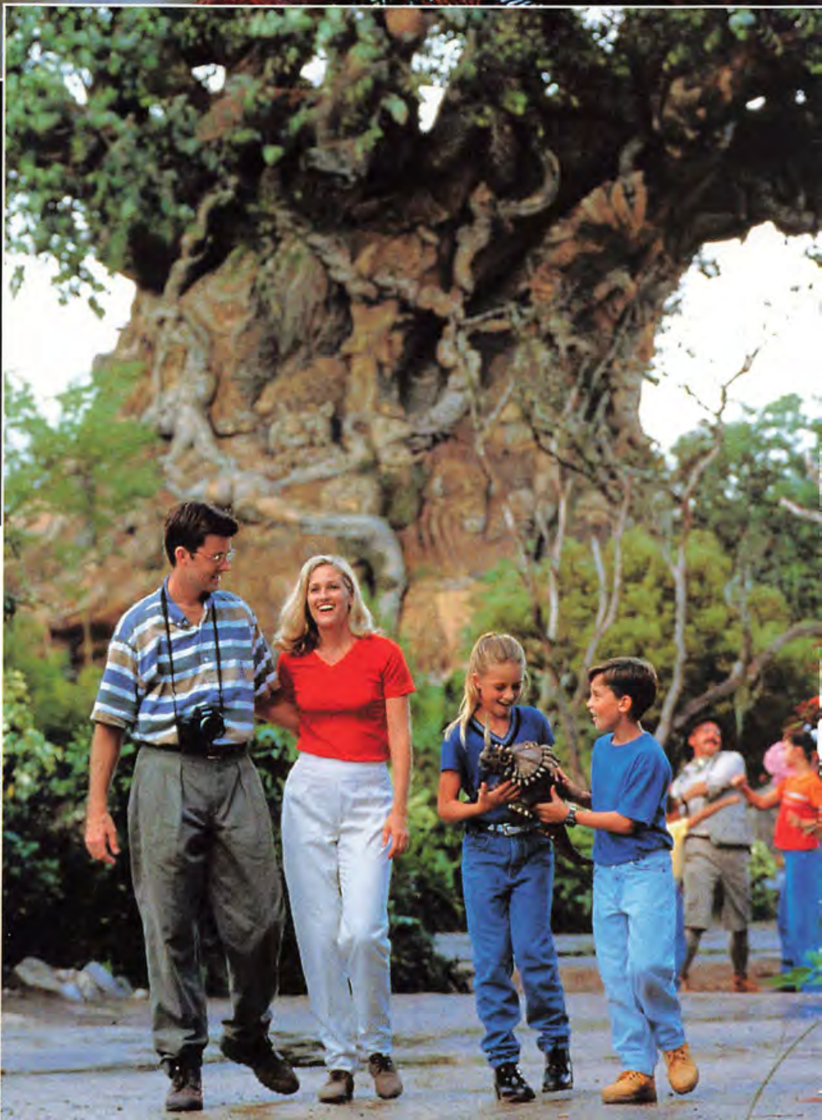
Top right: From conception to completion, the imposing 150-foot-high Tree of Life took seven years to construct.

Middle left: Visitors can expect the unexpected as they set off on a Kilimanjaro Safari.

Left: A father and son enjoy an inside look at a dinosaur at DinoLand U.S.A.

Top: Thrills abound in Countdown to Extinction, a hair-raising new attraction in DinoLand U.S.A.

Right: A family enjoys a stroll through Safari Village after viewing a fun-filled 3-D film about life from a bug's point of view inside the Tree of Life.



Those long-lost giants come roaring back to life as guests are whisked back 65 million years in Countdown to Extinction. This thrilling adventure puts guests face to face with dinosaurs and in the path of a giant asteroid that is hurtling toward Earth, bringing destruction in its wake.

The adventure across the wilds of Africa begins in Harambe, a modern-day town on the edge of a wildlife reserve. At the end of Harambe's main street, a gnarled and ancient baobab tree, a symbol of the African savanna, beckons visitors to journey further. Aboard Kilimanjaro Safaris, guests can do just that ... exploring more than 100 acres of savanna, forest, rivers and rocky hills. Bouncing across the rugged terrain in an open-sided safari vehicle, guests will experience up-close encounters with great herds of animals roaming the land.

The trip takes an even more adventurous turn as the safari vehicle surprises a band of elephant poachers and gives chase. The adventure ends at Gorilla Falls Exploration Trail, where guests can take a walk through the domain of two troops of lowland gorillas, observe hippos from an underwater viewing area and get close to exotic birds in an aviary.

The headquarters for conservation and species survival activities will be Conservation Station, which will provide a backstage look at the animal-care operations center and conservation programs at Disney's Animal Kingdom.

Conservation Station can be reached by rail aboard the Wildlife Express Train. Guests can meet animal experts, learn about the behind-the-scenes operations of the park and discover more about Disney's global commitment to wildlife — and how they can help the animals they've just met face to face. Guests will also find information on conservation organizations worldwide that will help them connect back to conservation efforts in their own communities.

Disney's Animal Kingdom operations team has assembled a prestigious group of animal experts and an advisory committee from around the nation to plan the park and its conservation programs. They believe that along with more than 180 other accredited zoological establishments nationwide, Disney's Animal Kingdom will play an important role in the American Zoo and Aquarium Association's "Species Survival Plans," which already have an impressive record of protecting and expanding the population of more than 100 endangered and threatened species. With the millions of visitors entertained by the Walt Disney World Resort each year, the experts believe public appreciation of conservation issues will be increased manyfold.

This whole new species of theme park is the most spectacular manifestation of a heritage that began with Walt Disney himself ... with his great love for animals and his unshakable belief in the power of entertainment to educate and enlighten.

The Wildlife Express Train takes guests to Conservation Station.

DISNEY CRUISE LINE SAILS INTO THE FUTURE

DISNEY CRUISE LINE A new kind of Disney magic takes to the seas this year as the first two Disney ships inspired by the glorious ocean liners of the past make their maiden voyages carrying guests who are combining seven-day land-sea vacation cruises to the Bahamas with stays at the Walt Disney World Resort.

The first of Disney's two new 85,000-ton superships, *Disney Magic*, will depart on her maiden voyage from Port Canaveral, Fla., April 30. Her sister ship, *Disney Wonder*, will go into service later in the year.

Disney Cruise Line offers the ultimate resort and cruise vacation by combining a three- or four-night stay at the Walt Disney World Resort with a three- or four-night cruise to the Bahamas.

The new Disney Cruise Line Terminal at Port Canaveral will serve as home port for the Disney ships. The Art Deco-inspired facility is the only exclusively dedicated terminal in the cruise industry.

Aboard the ships — specially designed for Disney — guests of all ages will be treated to extraordinary entertainment, dining experiences and adventures. While cruising, guests can screen premieres of new Disney films in the beautiful Buena Vista Theatre. In the lounge, pre-dinner cocktails will be served to the accompaniment of a jazz trio. In the ESPN Skybox, nonstop sports action will rule the high seas. And in the Walt Disney Theatre — a tribute to the grand theatrical palaces of long ago — guests can enjoy three all-new Disney productions, a different live musical stage show each night of the cruise.

Living accommodations onboard are also innovative and more than 25 percent larger than current industry standards. At Disney Cruise Line, the word "cabin" doesn't exist. Guests will reside in their own staterooms — comfortable spaces designed with special amenities to create a floating home away from home. The beautiful decor and the nautical fittings, the natural woods and imported tiles create a luxury environment that is rare on many ships.

While most cruise lines seat guests in the same dining room for the length of their cruise, a voyage with Disney Cruise Line offers a different restaurant every night at sea. Lumière's will feature 5-course dining, casually elegant service and exquisite continental cuisine with a French flair. Parrot Cay is an island-inspired restaurant where gentle breezes drift to and fro as guests dine on delicious Caribbean cuisine in a casual atmosphere. Animator's Palate offers a delightful menu in an environment that is a true work of art — the walls literally change from black and white to full color as you dine. And Palo, reserved exclusively for adults, serves a creative style of Northern Italian cuisine high atop the ship.

When the sun goes down, guests can head to Beat Street, the nighttime entertainment district designed to reflect the grown-up side of Disney. There they will find such venues as the Rockin' Bar D, where it's rock one night and country another, or Off Beat, an improvisational comedy club, or Sessions, a sophisticated piano lounge.

Kids will find almost an entire deck devoted to their enjoyment, complete with the largest supervised youth program at sea. Disney's Oceaneer Club gives the youngest cruisers a place all their own, with playgrounds, computer stations, costume dress-up areas, Disney characters and imaginative special programs.

Disney's Oceaneer Lab, for cruisers ages 9 to 12, is filled with a fantastic variety of hands-on, interactive lab stations sporting an unparalleled combination of gadgets, doohickeys, video screens and mind-boggling scientific stuff. Meanwhile, teenagers onboard will enjoy their own New York-style coffee house with music, large screen TV, computers and atmosphere to spare.

One of the highlights of a Disney cruise vacation is a day on Disney's private island, Castaway Cay. Here, the ship docks right at the island, enabling guests to avoid ship-to-shore shuttles and walk directly ashore into an oasis of serenity and fun. Two blissful white sand beaches beckon: a quiet, secluded beach for adults and a livelier, activity-filled one for families and kids. Beachcombers can grab a bike or volleyball, take a swim, snorkel in a 20-acre lagoon, paddle a canoe or sea kayak, enjoy a sumptuous lunch, take a midday snooze, or head over to the cabanas for an open-air massage.

Like the entire Disney Cruise Line experience, Castaway Cay is a bit of Neverland — as only Disney could dream it.

Right: The Disney Cruise Line Terminal is located at Port Canaveral, Fla.

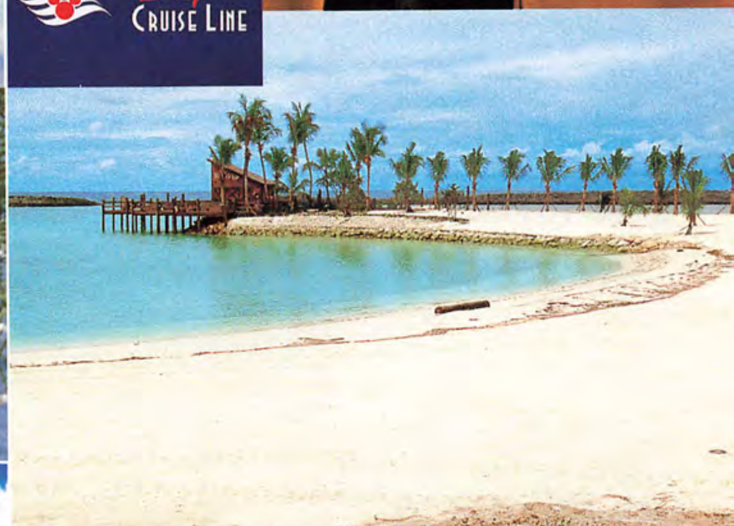
Middle right: Passengers will enjoy a different restaurant during each night of their Disney Cruise.

Lower right: Castaway Cay is a private island that offers family fun as well as a secluded beach for adults.

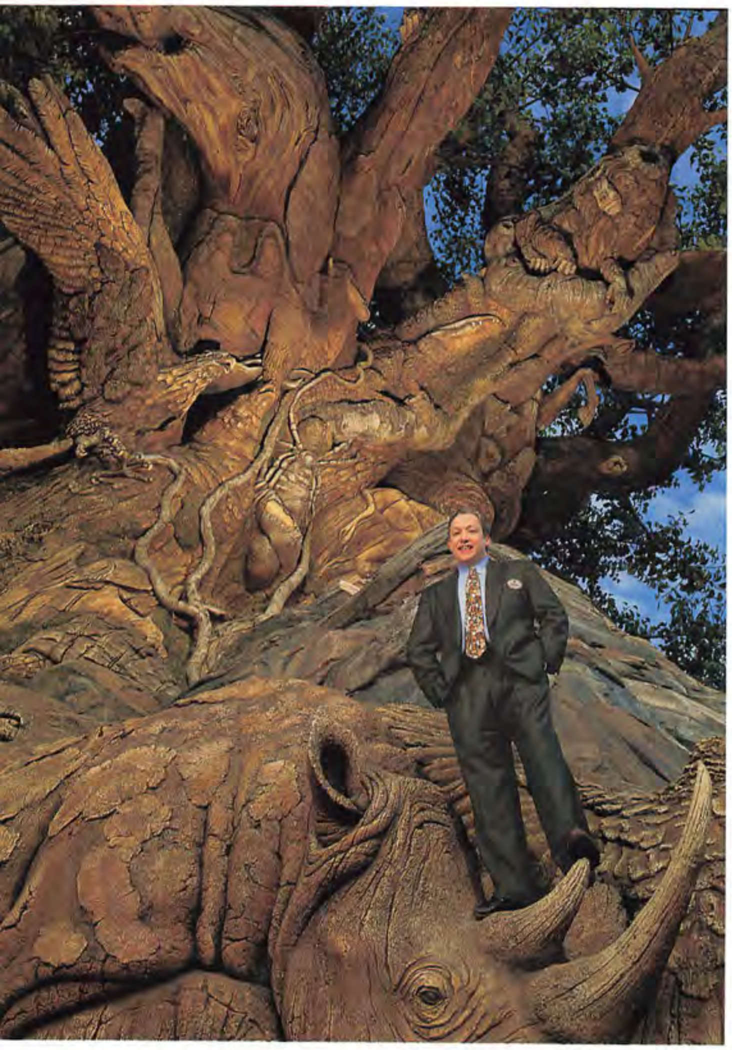
Left: Wendy's Tea Party serves smiles for young passengers.

Below: Relaxation is the goal aboard a Disney Cruise.

Disney CRUISE LINE



FUN AND EXCITEMENT FOR THE ENTIRE FAMILY...



Judson C. Green
President, Walt Disney Attractions

Walt Disney World, Disneyland, Tokyo Disneyland and Disneyland Paris remain the most popular theme park destinations in the world. The record results and energy of the past year have extended into 1998 as the division, working with Walt Disney Imagineering, creates stunning new attractions, resorts and entertainment.

Surely the biggest news of the new year is the April opening of Disney's Animal Kingdom in Florida (see page 20). But every Disney park is making news, and here is a quick look at what they are doing.

WALT DISNEY WORLD As the new year begins, guests get their last look at the Magic Kingdom's 20-story-tall anniversary cake. Soon the enormous confection will return to its normal magical identity as Cinderella's Castle.

Musical options for Downtown Disney guests continue to grow.

The BET SoundStage Club, opening in late spring at Pleasure Island, offers the best of jazz, rhythm and blues, soul and hip-hop. Down at the Wild Horse Saloon, every imaginable bit of country fun breaks loose — and all under one roof! This live country music, dance, merchandise, food and entertainment concept was first introduced in Nashville.

Last year, Sleeping Beauty's Castle was transformed into a 25th Anniversary Cake at Walt Disney World.

The streets of Disneyland welcome everybody's favorite hero in the popular Hercules Parade.

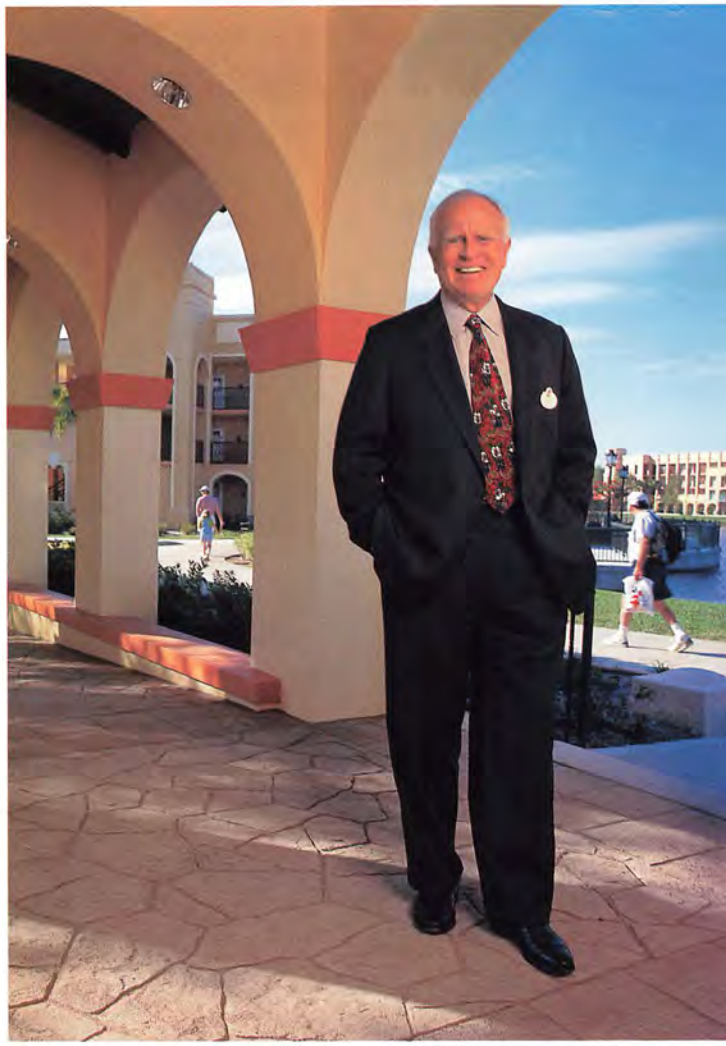
Disney's *Coronado Springs Resort*, inspired by the grand haciendas of the Spanish Colonial era, opened at Walt Disney World in 1997.

DisneyQuest will open in a 100,000-square-foot, five-story building at Downtown Disney West Side. It wraps Disney technology, creativity and storytelling into a new branded product outside the theme parks. Here guests will take an interactive journey through four distinct entertainment environments: the Explore Zone, the Score Zone, the Create Zone and the Replay Zone.

Also at West Side, the internationally acclaimed Cirque du Soleil will bring its high-energy performances to a state-of-the-art, 1,650-seat theater. Opening late this year, the building resembles a circus tent — just the thing for Cirque's famed tumblers, trapeze artists and clowns.

The first McDonald's restaurant on Disney property opened just in time for the year-end holidays at the Downtown Disney Marketplace. A second McDonald's restaurant makes its debut in February near Disney's All-Star Resorts. And world-famous candies from San Francisco will sweeten the fare at the Downtown Disney Marketplace with the opening of Ghirardelli's Chocolate Shop and Soda Fountain.

This summer the *Mulan* parade will coincide with the release of that film. *Mulan* is the first film produced entirely by the animation group at Walt Disney World.

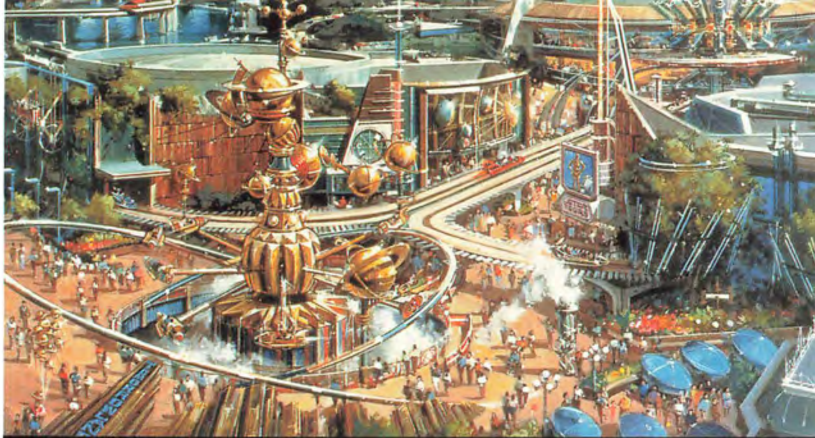


Richard A. Nunis
Chairman, Walt Disney Attractions

The Atlanta Braves use the newly opened Disney's Wide World of Sports complex in Florida for spring training.

The "ABC Super Soap Weekend," held in November at Disney-MGM Studios, featured appearances by the stars from ABC daytime dramas.

Left: Teemu Selanne of the Mighty Ducks of Anaheim gets ready to make his move.



Right: The future will be unveiled this spring as an all-new Tomorrowland opens at Disneyland.

Right: An energetic performer takes to the streets at Downtown Disney Westside.

Left: Right Fielder Tim Salmon of the Anaheim Angels swings into action.

Lower right: The Wolfgang Puck Cafe at Downtown Disney Westside features cutting-edge California cuisine.

Below right: Goosebumps HorrorLand Fright Show and Funhouse opened in October at Disney-MGM Studios.

Below: This Junior Olympics runner goes for the gold at Disney's Wide World of Sports complex.

Fantasmic!, the nighttime water spectacle that has long enchanted guests at Disneyland, will find a permanent home at the Disney-MGM Studios in October. The show takes viewers inside the dreams of Mickey Mouse — and into a world where his magic creates dancing waters, shooting comets, animated fountains, balls of fire and other wonders.

Epcot shifts into high gear with the opening of Test Track. Guests join other "test drivers" in one of the most advanced ride vehicles ever developed by Walt Disney's Imagineers in this pavilion presented by General Motors.

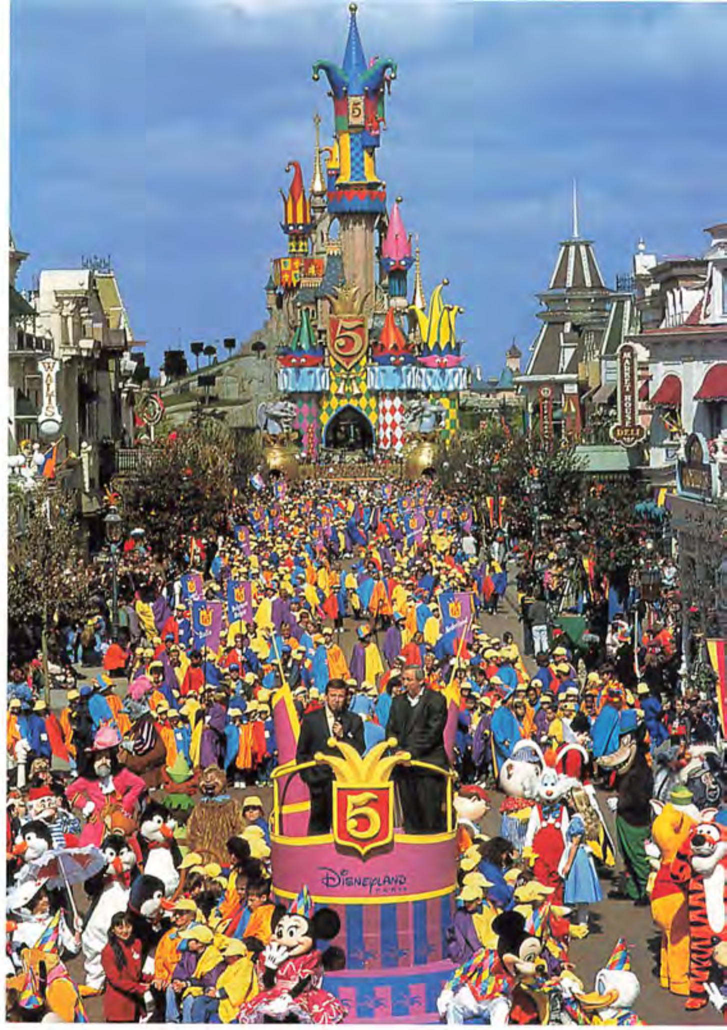
After strapping themselves in, drivers peel out to face grueling road conditions, severe weather, even crashes. The cars go through speed testing and literally burst through the pavilion's wall.

Resort expansion continues. Construction is under way on the third phase of Disney's All-Star Resorts — 1,920 value-priced rooms to be completed in 1999. Its theme: Disney films from *Fantasia* to *The Mighty Ducks*.

DISNEYLAND The future will once again become "reality" this spring when the new Tomorrowland makes its debut. The attraction blends today's science-fiction fantasies with tomorrow's sci-tech reality.

Guests will race throughout the newly created land on Rocket Rods XPR, a high-speed ride along the route formerly taken by the leisurely People Mover. They will become acquainted with cutting-edge consumer technology at Innoventions and be shrunk to minuscule proportions at the *Honey, I Shrunk the Audience* 3-D attraction.

Guests will be greeted by a new signature attraction at the front of the land; the Astro Orbiter will include colorful rockets circling a series of moving planets, thus setting the stage for exploration into Tomorrowland. A spectacular fountain will have guests interacting within a new Water Maze, where synchronized patterns of water will shoot from the ground.



Above: The Chateau de la Belle au Bois Dormant (Sleeping Beauty Castle) was transformed into Le Chateau Fou from *The Hunchback of Notre Dame* for the fifth anniversary celebration of Disneyland Paris.

Above: Rocket Rods will zoom through Disneyland's new Tomorrowland, using the former People Mover track as a raceway.

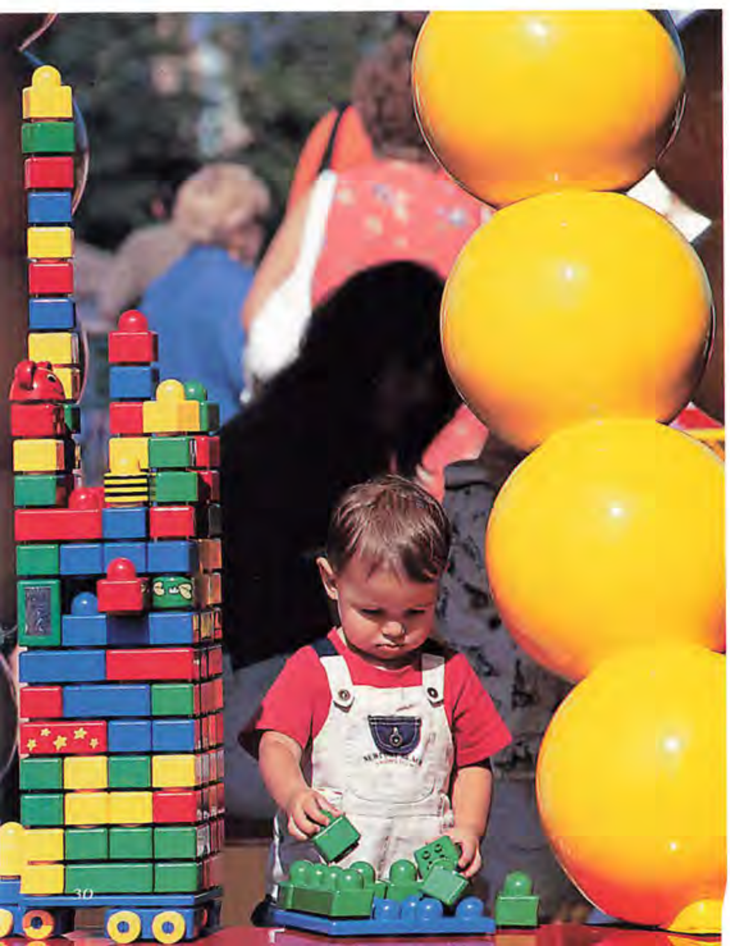
The main pool at Disney's Coronado Springs Resort features a five-story Mayan pyramid with waterfall and water slide.

The debut of the *Mulan* parade this summer will emphasize the excitement, color and romance of Disney's newest animated feature. The pageantry of the parade route is inspired by the history and heritage of ancient China.

Construction has begun on the long-planned second gate at Disneyland. Disney's California Adventure is rising on what was the parking lot. It will include an entertainment center with shopping, theaters, dining and a deluxe hotel when it opens shortly after the start of the new century.

Areas in the new park will celebrate Hollywood, California's beaches and the natural beauty of the Golden State. Guests will soar over California's scenic wonders, go behind the scenes in a one-of-a-kind TV studio and brave the rapids on a raft through the waterways of an old mining town.

At the Grand Californian Hotel, Disneyland guests — for the first time at a Disney U.S. theme park — will be able to spend the night at accommodations inside the park itself.



TOKYO DISNEYLAND Planning continues for the 15th anniversary celebration, to begin in April. "Viva! Magic" is the theme for the year-long event. A new daytime parade, shows and spectacular nighttime productions will enchant guests.

Oriental Land Company, Ltd., owner and operator of Tokyo Disneyland, announced it would open a new theme park, Tokyo DisneySea, in the autumn of 2001. The 176-acre park and hotel will be located on Tokyo Bay adjacent to Tokyo Disneyland.

The first stage in the development of the Maihama Station area next door to Tokyo Disneyland includes a 504-room Disney-branded hotel, restaurants, shops, a cinema complex and other entertainment sites. A transportation system to link the two Disney theme parks, the hotels and the JR Maihama Station will begin operation when Tokyo DisneySea opens.

DISNEYLAND PARIS 1998, the Year of Disney Classics, features new entertainment inspired by Disney's 35 classic animated films. The new Carnival Parade in Winter celebrates Mardi Gras with over 40 classic characters. Then, in spring, the new Wonderful World of Disney parade debuts with interactive floats ranging from *Steamboat Willie* to *Hercules*. The Springtime Festival of Flowers highlights popular Disney "animal" classics in topiary form.

More lights, more magic and a bigger Main Street Electrical Parade illuminates the summer, aided by the premiere of Tinkerbell's Fantasy in the Sky Fireworks Show. And fall brings Disney's California Dream festival, a Halloween happening and a classic Christmas celebration.

The new LEGO Imagination Center at the Downtown Disney Marketplace enthralls *a young guest.*

WALT DISNEY IMAGINEERING
DREAMERS AND BUILDERS BEHIND THE SCENES

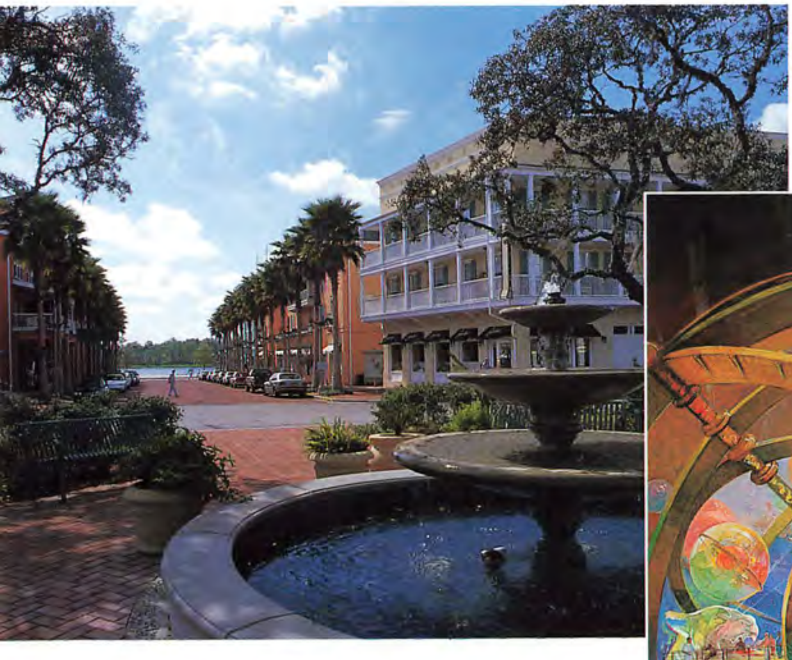
Walt Disney Imagineers, the creative, technical and development wizards behind the Disney resorts, theme parks and regional entertainment venues, are in the midst of their busiest time ever. More than 2,000 Imagineers are creating new Disney three-dimensional attractions around the world.

The company that Walt Disney himself created to design and build Disneyland over 45 years ago now has three entire theme parks in various stages of development — in addition to an exciting menu of new entertainment and development projects, ranging from soaring cyberspace adventures to the landmark community of Celebration.

At Walt Disney World, Imagineers have put the finishing touches on their largest theme park ever, Disney's Animal Kingdom (see story, page 20).

Martin A. Sklar
Vice Chairman and Principal Creative Executive,
Walt Disney Imagineering

Below: The town of Celebration, Fla., designed and constructed by Imagineering, continues to grow.



Right: Visitors to DisneyQuest, the ultimate interactive adventure which opens this summer at Walt Disney World, begin their journey at Ventureport.

WALT DISNEY IMAGINEERING

Towering over the entire Park is the 14-story *Tree of Life*, whose bark is a magnificent sculptural tapestry of animals. This icon not only serves as the centerpiece of Disney's Animal Kingdom but also houses a wild and whimsical state-of-the-art 3-D experience titled "It's Tough To Be a Bug," created by Imagineering in association with Walt Disney Feature Animation and John Lasseter of Pixar.

At Epcot, Test Track presented by General Motors, brings the rigors of an automobile proving ground to life. The attraction culminates with a 65-mile-an-hour victory lap outside the building, making Test Track the fastest ride Imagineering has ever created (see photo, page 31).

As the Enchanted Tiki Room reopens at the Magic Kingdom in spring, guests may not notice much difference — until the attraction's new owners, Iago from *Aladdin* and Zazu from *The Lion King*, fly in to stir up the Tiki gods as part of Imagineering's rousing revamping of the musical review.

In summer, Downtown Disney West Side will unveil one of Imagineering's next generation creations with the opening of DisneyQuest, a breakthrough concept in interactive technology offering four distinctive entertainment environments geared for the entire family. Imagineering and Disney Regional Entertainment are also teaming up on a second DisneyQuest that will open in Chicago next year.

A dedicated team of Imagineers continues to develop the visionary community of Celebration, near Walt Disney World in Florida, which is following its carefully planned growth toward an eventual population of 20,000. Current residents are reveling in the town's combination of leading-edge health, education and technology systems with a comfortable sense of community, and new residential housing is being purchased as soon as it is offered.

Below: Downtown Disney West Side features the Wolfgang Puck Cafe and Bongos Cuban Cafe, along with nightclubs, theaters, boutiques and theme restaurants.

Below right: Edison International Field, home of the Anaheim Angels, reopens this year.

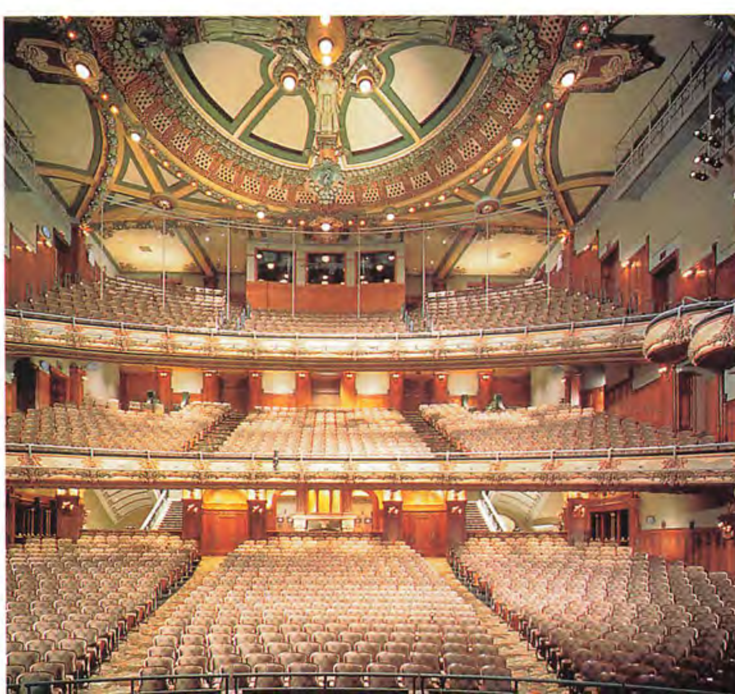
Elsewhere in Florida, Imagineers have everything shipshape for the launch of the Disney Cruise Line, from the stately Port Canaveral home terminal to the majestic 964-foot *Disney Magic* cruise ship to Castaway Cay, the first private island stopover dock in the industry (see story, page 24).

The first pitch of the Anaheim Angels' 1998 season serves as the exclamation point to Imagineering's work on Edison International Field (formerly Anaheim Stadium), which not only improved seating and amenities for the fans, but also created specially tailored training facilities for the Angel players.

Outside the Disneyland gates, Imagineers are beginning construction and infrastructure work on the Disneyland Resort expansion, which will include a retail, dining and entertainment venue, and a second theme park, Disney's California Adventure, which will spring to life on the site of the current Disneyland parking lot.

Also targeted to debut in 2001 is Tokyo DisneySea, a new 100-acre theme park and hotel in Tokyo Bay. Working closely with the Oriental Land Company (OLC), Imagineers are creating attractions, dining and shopping experiences that celebrate discovery, romance and adventure found amid oceans around the world.

Kenneth P. Wong
President, Walt Disney Imagineering



Left: The newly restored historic New Amsterdam Theater in New York has been hailed as an architectural triumph.

Above: Tokyo DisneySea, located in Tokyo Bay, is slated to open in the fall of 2001.

CREATIVE CONTENT

FILMED ENTERTAINMENT 1997 was an excellent year for the company's film business, with four films — *Ransom, 101 Dalmatians, Con Air* and *George of the Jungle* — each topping the $100 million mark at the domestic box office, and a fifth — *Hercules* — nearing that figure late in the year. Several movies released toward the end of 1997 were still going strong well into the new year.

Flubber (Walt Disney Pictures) stars Robin Williams in a remake of the Fred MacMurray classic about an absent-minded professor who invents "flying rubber." In *Mr. Magoo* (Disney), Leslie Nielsen portrays the famous nearsighted hero, who foils nefarious jewel thieves with the help of his trusty nephew and loyal dog.

The Walt Disney touch will be evident again this summer when the action/adventure movie *Mighty Joe Young* reaches the big screen. It is based on the 1949 film of the same name. For the holidays, Disney will offer *The Parent Trap*, a remake of the memorable movie starring Hayley Mills.

Krippendorf's Tribe (Touchstone), a comedy due out late in February, stars Richard Dreyfuss and Lily Tomlin. *Eaters of the Dead* (Touchstone), with a cast that includes Antonio Banderas, Diane Venora and Omar Sharif, is an adventure story based on Michael Crichton's book, directed by John McTiernan.

The Touchstone lineup continues with *Holy Man* (April), starring Eddie Murphy and Jeff Goldblum. *He Got Game* (May), produced and directed by Spike Lee, stars Denzel Washington.

The Horse Whisperer, a romantic drama starring Robert Redford and Kristin Scott-Thomas, is scheduled for a May release, as is *Jane Austen's MAFIA!*, a comedy directed by Jim Abrahams. *Armageddon*, with Bruce Willis, comes to theaters in July, as does *6 Days, 7 Nights*, a romantic comedy starring Harrison Ford. The August comedy/drama *Rushmore* with Bill Murray and *A Civil Action* (September) with John Travolta and Robert Duvall are also on the agenda.

Thanksgiving brings *Beloved*, based on Toni Morrison's Pulitzer Prize-winning novel, directed by Oscar winner Jonathon Demme and produced by Oprah Winfrey, who will also star.

Hollywood Pictures' *A Small Miracle* features Jim Carrey in the tale of a boy who surmounts his lack of size to become a hero. It is based on *A Prayer for Owen Meany*, a novel by John Irving.

MIRAMAX Building on the huge success of *Scream*, which earned $103 million at the domestic box office in 1997, Miramax came right back with *Scream 2*, the sequel, to kick off the new fiscal year. Other early releases are *Sliding Doors* and *Senseless*, both comedies. *Four Days in September*, with Alan Arkin, is based on the true story of a kidnapping in Brazil. *Phantoms* is a supernatural thriller starring Peter O'Toole.

B. Monkey, directed by Michael Radford (*Il Postino*), is the story of a beautiful but dangerous young woman.

Wide Awake, a comedy/adventure/mystery, and the suspense thriller *Nightwatch* both reach theaters March 20.

Later in the year come *The Mighty* (April) starring Sharon Stone, the mystery *Velvet Goldmine* (June), *My Life So Far* (July) with Colin Firth and

Far left: Identical twin sisters (Lindsay Lohan) separated at birth, meet for the first time at summer camp and plot to reunite their long-divorced parents, in Walt Disney Pictures' remake of the classic comedy, "The Parent Trap."

Left: Miramax's comedy, *Sliding Doors*, starring Gwyneth Paltrow, is due for release early this year.

Mary Elizabeth Mastrantonio, and *54* (August), a story about a young man from a small town who lands a job at a famous New York nightclub.

BUENA VISTA INTERNATIONAL BVI, which distributes all Disney films outside North America, begins 1998 as the world's top-ranked international distributor of motion pictures. In addition, it is involved in distribution partnerships with other studios and co-produces selected movies in Europe and South America.

BVI crossed the $1-billion boxoffice threshold on November 1 with year-to-date 1997 receipts of $1.01 billion, becoming the first international distribution company in industry history to achieve this feat three years in a row. With more than eight weeks remaining in the calendar year, BVI was expected to eclipse the previous company and industry high of $1.1 billion set in 1996.

These extraordinary results represent the accumulated performances of almost 40 films grossing over $1 million by October 31, three of which grossed more than $100 million overseas. Three additional titles were expected to reach that level by the end of the calendar year.

Ransom, the number-one late-winter release of calendar 1997, led the $100 million club with $146.3 million for the year, and $172.4 million since its debut

Joseph E. Roth
Chairman, The Walt Disney Studios

Eddie Murphy (right) pulls out all the laugh stops as an inspirational televangelist who makes the Home Shopping network a religious experience in Touchstone Pictures' *Holy Man* in which Kelly Preston (left) and Jeff Goldblum (center) also star.

Antonio Banderas stars in Touchstone Pictures' exciting adventure thriller, *Eaters of the Dead*, based on Michael Crichton's best selling novel.

Academy award-winners Robert Redford and Kristin Scott Thomas star in the romantic drama, *The Horse Whisperer*, based on the acclaimed novel and which Redford also directs.

The adventure drama, *Mighty Joe Young*, will be unleashed in theatres this summer.

As an asteroid the size of Texas plummets toward Earth, Harry S. Stamper (Bruce Willis) is enlisted for a last ditch mission to save the world and prevent *Armageddon*.

One of the holiday season's biggest hits, Walt Disney Pictures' live-action family comedy *Flubber* stars Robin Williams as an absent-minded professor who creates a miraculous goo that defies the laws of gravity.

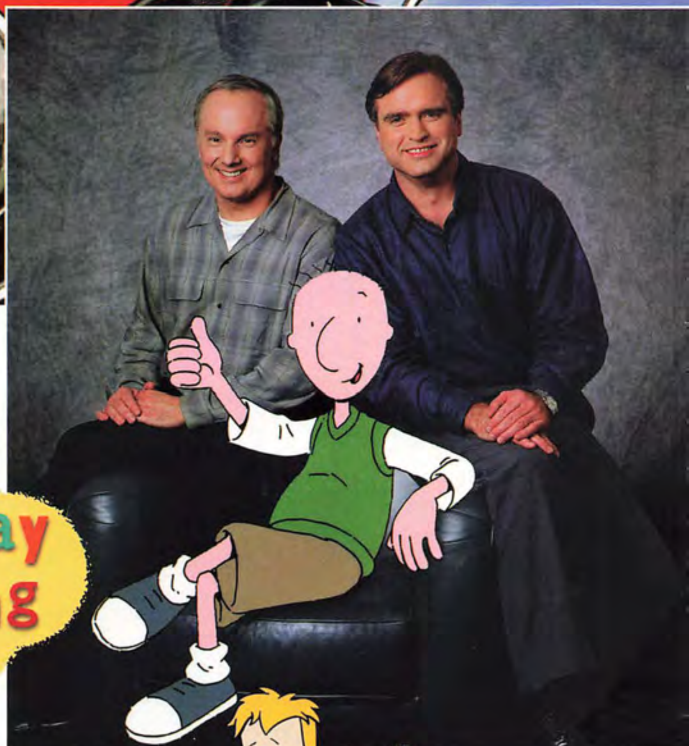
Jenna Elfman stars with Academy Award-winner Richard Dreyfuss in Touchstone Pictures' comedy, *Krippendorf's Tribe*.

Academy Award-winner Denzel Washington (right) stars in writer/director/producer Spike Lee's compelling drama for Touchstone Pictures, *He Got Game*.

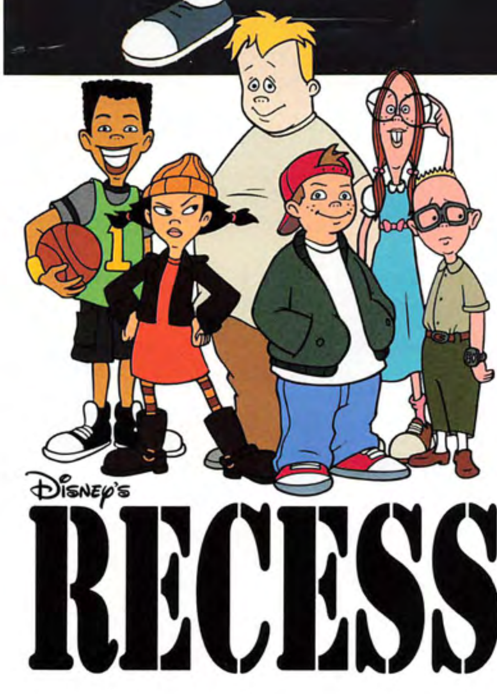
Harrison Ford stars in *6 Days, 7 Nights*, coming to theatres in July.

The ABC family comedy *Soul Man* stars Dan Aykroyd as Reverend Mike Weber, an unconventional minister.

Below: Tim Allen and Patricia Richardson star in *Home Improvement*, now in its seventh season on ABC.



Middle right: Doug and his creators Jim Jenkins and David Campbell are all smiles over their show, *Brand Spanking New Doug*.



Recess, from Walt Disney Television Animation, airs Saturday mornings on ABC.

last Christmas. Closely behind was calendar 1997's top spring release, *101 Dalmatians*, which posted $144.5 million for the year, or $180.2 million including holiday 1996 results. Rounding out the top three was *Con Air*, which had garnered $114 million through October.

BUENA VISTA HOME ENTERTAINMENT The merger of Buena Vista Home Video and Buena Vista Home Entertainment has resulted in a new organization that manages all Disney home video business and distributes Disney interactive products around the world.

Seven of 1997's ten top-selling home videos were Buena Vista titles.

More Disney Classic re-releases are planned, including *Peter Pan* and *101 Dalmatians*, with marketing campaigns aimed at a whole new generation of children and parents who have yet to collect these titles.

The live-action sell-through business remains vigorous in the wake of the strong performance of *101 Dalmatians* and *George of the Jungle*. This year's *Flubber* is expected to extend that trend.

Direct-to-video movies continue to thrive. Released for the 1997 holidays was *Disney's Beauty and the Beast: The Enchanted Christmas*. This year the long-awaited *Lion King II: Simba's Pride* and *Pocahontas II: Journey to a New World* come to video stores. Both will showcase remarkable animation and special effects, as well as the voices of such top talents as Matthew Broderick and James Earl Jones.

Internationally, BVHE continues to expand. The emphasis for 1998 is on further entry into markets in Southeast Asia, Latin America and Eastern Europe. Offices in Malaysia, Pakistan, Croatia, Slovenia and Russia opened in 1997.

TOUCHSTONE TELEVISION Two new prime-time series from Touchstone went on the air during the fall season. *Teen Angel* and *Hiller and Diller* were promising additions to ABC's schedule. *Style and Substance* was awaiting a mid-season debut on CBS.

Meanwhile, *Home Improvement* (ABC) remains a major success in its seventh season — the highest-rated series in its time period and a consistent presence in the weekly top ten.

Soul Man (ABC) has built on last season's debut with a strong showing on Tuesday night. *Ellen* remains a steady performer on Wednesday, *Unhappily Ever After* and *Smart Guy* (both WB Network) are doing well, and *Boy Meets World* (ABC) is a favorite with kids and teens on Friday night.

WALT DISNEY TELEVISION First launched in 1954 as *Disneyland*, one of the most beloved television series is enjoying its return to Sunday evenings under its more familiar title, *The Wonderful World of Disney*.

By summer *Wonderful World* will have aired 31 movies, including made-for-television features such as *Cinderella*, *Angels in the End Zone* and *Oliver Twist*. *Cinderella* drew a huge audience when it aired November 2.

Sixty-five episodes of *Disney's Hercules* make their debut on ABC. The series is designed to tell the tale of Hercules during his formative years.

In January, Walt Disney Studios and WGBH-TV, Boston, will present *The Irish in America: Long Journey Home* on PBS. This six-hour, three-evening special chronicles the great Irish immigration to the United States after the potato famine of the mid-1800's.

WALT DISNEY TELEVISION ANIMATION The new year marks two firsts for Walt Disney Television Animation.

Mouseworks, the first animated series featuring Disney's classic characters, will begin production this year for delivery in 1999. WDTVA also has initiated production of 31 episodes of *Brand Spanking New Doug* (with Jumbo Pictures) and 39 episodes of *The Lion King's Timon and Pumbaa*, the latter the first series ever produced primarily for international distribution.

Roy E. Disney
Vice Chairman, The Walt Disney Company and Chairman, Walt Disney Feature Animation

Left: *Disney's Beauty and the Beast: The Enchanted Christmas*, which recently debuted on home video, features all the voices from the original *Beauty and the Beast*.

Right: Back on the big screen for the first time in eight years, *The Little Mermaid* was re-released during the 1997 holiday season.

WDTVA will continue to produce *Recess*, *Pepper Ann* and *Disney's One Saturday Morning*. It remains the primary provider of children's programming on ABC, which surged to challenge for rating leadership on Saturday mornings in the early weeks of the new fall season.

WALT DISNEY FEATURE ANIMATION With eight new films in production, 1998 will be one of the busiest times in the history of the division.

Mulan is scheduled for summertime release. It chronicles the adventures of a young Chinese girl whose irrepressible spirit clashes with her tradition-bound society. *Mulan* is the first film produced primarily at Feature Animation's Florida studio.

The division's partnership with Pixar Animation Studios continues with an adventure tale, *A Bug's Life*, in the fall. From the creators of *Toy Story*, this is "an epic of miniature proportions" that will take audiences on a journey out of the toy box and into the garden.

On the horizon: *Tarzan*, which sheds new light on the legendary jungle hero with music by Phil Collins; *Kingdom of the Sun*, inspired by the ancient Incan civilization with music by Sting; *Treasure Planet*, a swashbuckling intergalactic journey, and an action-adventure film based on the mythical lost continent of Atlantis.

Production also is under way on *Fantasia 2000*, a continuation of Walt Disney's 1940 masterpiece, under the guidance of Roy E. Disney.

WALT DISNEY THEATRICAL PRODUCTIONS On November 13, the spotlight was on New York's 42nd Street, where the Broadway musical of *The Lion King* opened at the New Amsterdam Theatre. Critically acclaimed director Julie Taymor joined forces with the musical talents of Elton John and Tim Rice to create a theatrical experience that the famed Broadway critic Clive Barnes called "... enormous, fantastic, riotous fun." The *N.Y. Daily News* said: "... a perfect marriage of entertainment and art ... unlike anything Broadway has ever seen."

Consumer Products

Barton K. Boyd
President, Disney Consumer Products

Disney Consumer Products will continue to expand its merchandising business in 1998, led by Mickey Mouse and Winnie the Pooh.

Mickey Matinee will return the mouse's most famous cartoons to movie theaters as part of a touring Mickey show.

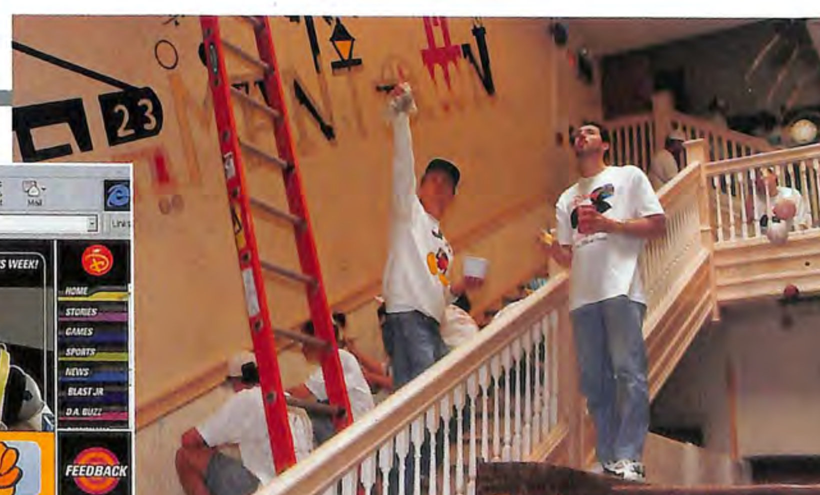
Licensing of characters from Disney films remains enormously successful. The late-1997 return of *The Little Mermaid* to the big screen was preceded by new merchandise that is expected to remain popular well into the new year.

The microscopic fun of *A Bug's Life* will be magnified into books, toys and apparel featuring the multi-legged stars of this newest film from Disney and Pixar. Randy Newman's soundtrack will be released by Walt Disney Records when the film is released in the fall.

Creatures great and small also will take the spotlight with the spring opening of Disney's Animal Kingdom in Florida (see story page 20). Disney Press will offer a herd of books, including *Giraffe Trouble*, *Rhino Romp* and *Countdown to Extinction*.

In the summer, *Mulan*, Disney's 36th animated feature film, will bring the mystery of ancient China to licensed merchandise, interactive games and a line of children's books. Walt Disney Records will release the soundtrack by composer Matthew Wilder and Tony Award-winning lyricist David Zippel.

Disney's Daily Blast was launched in April on the worldwide web.



The Disney Store VoluntEARS work with the Boys and Girls Clubs in 200 cities in the United States and Canada. Above, VoluntEARS help refurbish a club in Germantown, Pa.

The New Amsterdam Theatre itself was in the spotlight last spring when Disney and the City of New York welcomed the grand showplace back to life after historic restoration by a team led by Walt Disney Imagineers. It was officially inaugurated with a world premiere concert event: *Alan Menken and Tim Rice's King David.*

Disney's first theatrical production, the 1994 Tony Award-winning *Beauty and the Beast,* continues in its fourth year on Broadway and is currently being performed in Chicago, London's West End, Stuttgart, Mexico City, Tokyo and Fukuoka.

Future plans include a new musical by Elton John and Tim Rice based on the legend of Aida.

HOLLYWOOD RECORDS Hollywood Records looks forward to two major albums by midyear. The first will mark the recording debut of Idina Menzel, a star of the Broadway hit *Rent*. The second, still untitled, is by the youthful star J'son.

The division has successfully introduced a fully integrated country label, Lyric Street Records. Gold-status singer Lari White will be featured on its first album.

MAMMOTH RECORDS Disney added to its music assets in September when it purchased Mammoth Records, one of the top independent labels in the music industry. Based in Carrboro, N.C., Mammoth brings to Disney a roster of more than 25 artists and a catalog of approximately 120 albums.

Peter Schneider
President, Walt Disney Feature Animation and Walt Disney Theatrical Productions

Below: Rave reviews greeted the November opening of the breathtaking Broadway musical, *The Lion King.*

Above: *A Bug's Life*, a computer-animated feature film from Pixar, which created *Toy Story*, follows the "ant-ics" of a young ant and its colony when it debuts this fall.

MULAN

C O M I N G

J U N E

1 9 9 8

f r o m

Walt Disney Pictures

Top: Kathie Lee Gifford and friends celebrated Friendship Day with Pooh on August 4.

Above: *Touch 'n' Crawl Mickey* from Mattel has this young fan in hot pursuit.

Above: Disney Mini Bean Bag Plush are top sellers at The Disney Stores.

Right: Disney Press introduces a series of books themed to Disney's Animal Kingdom.

In February, *Club Disney*, a family entertainment and activity center, opened near Los Angeles.

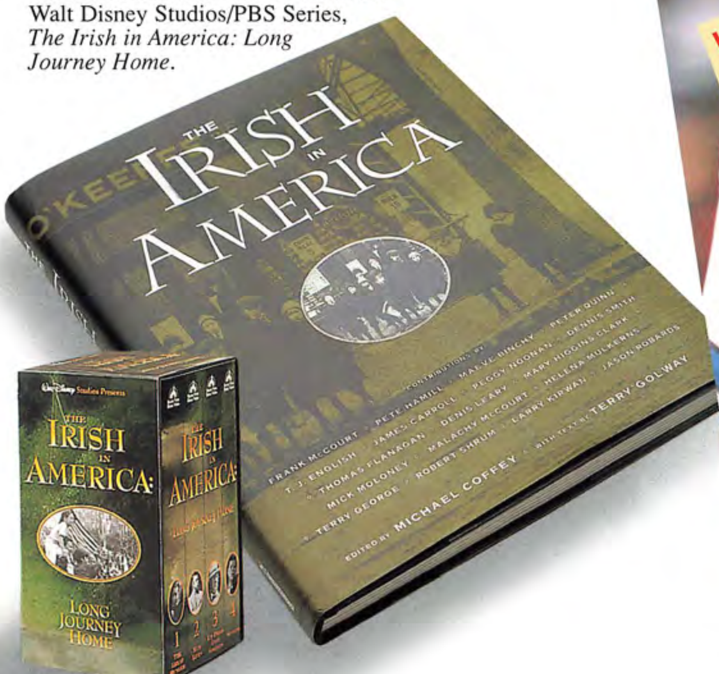
ESPN — The Store, Disney's newest addition to its retail line-up, opened in September.

Left: A voice-activated Flubber dances its way onto retail shelves.

Above: Richard Carlson's *Don't Sweat the Small Stuff* and *Don't Worry, Make Money* have topped bestseller lists.

Left: McDuff is a tail-wagging hit from Hyperion Books for Children.

Below: Hyperion and Buena Vista Home Video collaborated with tie-ins to the Walt Disney Studios/PBS Series, *The Irish in America: Long Journey Home*.



ESPN Magazine makes its debut in March.

Kid-friendly favorites Hercules and Winnie the Pooh come to life in interactive products.

In a contest sponsored by Wal-Mart, one prizewinner's hometown will win a full-scale Fourth of July parade, with Mickey and Minnie as grand marshals.

Internationally, Disney will introduce "product corners" in department stores and other key outlets on three continents. Disney retail will create new markets with "Mickey & Friends," a licensed store operation that has made a successful debut in Indonesia. A second outlet will open this year in Poland.

In Japan, Mickey and Minnie will celebrate their 70th anniversary with a line of commemorative merchandise and department store special events.

Walt Disney Art Classics plans to celebrate the company's 75th anniversary in October with an auction of Disney memorabilia at Sotheby's in New York City. Proceeds from the event will benefit UNICEF.

Winnie and his friends plan a host of special events and an array of new merchandise. On August 2, Pooh will again be the huggable ambassador of Friendship Day. In Europe and throughout the rest of the world, he will appear on new lines of products for children and on video games from Disney Interactive.

Disney Consumer Products will also apply creativity to offerings inspired by ABC. Athletes and armchair enthusiasts alike will cheer the new lineup of products capitalizing on the strength of ESPN, ABC Sports and *Monday Night Football*.

ESPN, ABC Sports and the X Games expand consumer awareness through licensed lines of retail merchandise.

Beginning in March, *ESPN Magazine* will hit newsstands every two weeks, providing detailed coverage of sports celebrities and events. Licensed merchandise will include ESPN sportswear and trivia games, ABC Sports watches and *Monday Night Football* mugs and blankets.

ESPN — The Store, which opened in September in Glendale, Calif., is a prototype for a new retail chain. It offers a colorful, interactive sports retail environment reflecting the pace and excitement of ESPN.

Hyperion will take to the playing field this year, publishing a new line of books, starting with the *1998 ESPN Information Please Sports Almanac* and *The Quotable ESPN*. Disney Interactive will introduce new sports games for PC and Sony Playstation. Meanwhile, a separate line of ultra-hip merchandise for ESPN's X Games celebrates the lifestyle and attitude of alternative sports.

ABC's daytime dramas have inspired their own products. One of the most popular characters, Erica Kane from *All My Children*, will lend her special touch to a new collectors' doll, and Walt Disney Records plans to release *The Music of General Hospital*, recalling memorable moments of the long-running serial.

In May, the Children's Summit will mark its fifth anniversary by inviting 750 kids from around the world to Disneyland Paris. The theme is "Growing Up," and the youthful delegates will create a 20-year time capsule on that subject.

In Paris in November, the fifth annual Mickey for Kids International Rapid Chess Tournament will attract youngsters from 60 countries. An instruction book for children, written by world champion Anatoly Karpov and featuring Disney characters, will accompany the event.

BROADCASTING

Robert A. Iger
President, ABC Inc.

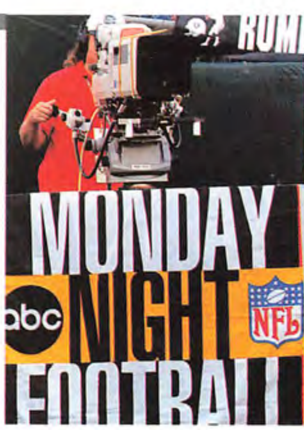
ABC TELEVISION NETWORK ABC began the new prime-time television season with proven audience favorites *Home Improvement*, *The Drew Carey Show* and *Monday Night Football*. Its Wednesday night lineup was bolstered with the addition of one of the network's most-watched new programs, *Dharma & Greg*, a big hit among 18- to 49-year-old viewers. The season also marked the Sunday night prime-time network TV return of *The Wonderful World of Disney*, with original made-for-TV feature movies, including the critically acclaimed ratings blockbuster, *Cinderella*, as well as proven theatrical features from the Disney library.

ABC News continued to be a leader in television news. The division launched a second *20/20* edition on Thursday to join its popular Friday edition and *Primetime Live*. In September, Lisa McRee joined Charles Gibson as co-anchor of *Good Morning America*.

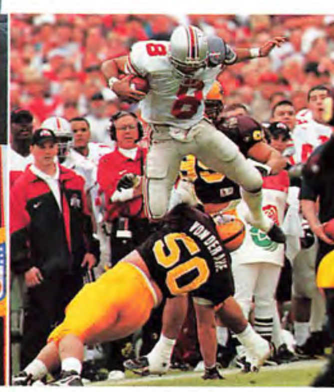
ABC Daytime retains its 20-year ratings leadership in the key early-afternoon demographic of women 18 to 49. Two new weekday programs launched this fall are *The View*, which continues to build audience, and *Port Charles*, the most successful launch of a daytime serial in more than a decade.

ABC Sports will bring World Cup Soccer, one of the world's most popular sporting attractions, to the U.S. television market this year. On the domestic front, *Monday Night Football* continues to be the highest-rated regularly scheduled sports program on network TV. ABC will also carry games of the Collegiate Football Alliance that will determine the sport's national champion beginning late this year.

Lifetime Television broadcasts the WNBA games live.



Highly-rated *Monday Night Football* continues on ABC.



College football games are highlighted on ABC.

ABC's hit comedy *Spin City* features Michael J. Fox as the right-hand man to Mayor Randall Winston, played by Barry Bostwick.

The Wonderful World of Disney returned in September to Sunday nights on ABC.

Above: Singing sensations Whitney Houston and Brandy starred in a spectacular new staging of Rodgers and Hammerstein's *Cinderella*, which aired in fall on *The Wonderful World of Disney*. Ms. Houston was also an executive producer on the updated classic.

Above: Based on a true story about school desegregation, *Ruby Bridges*, airs on *The Wonderful World of Disney* in January.

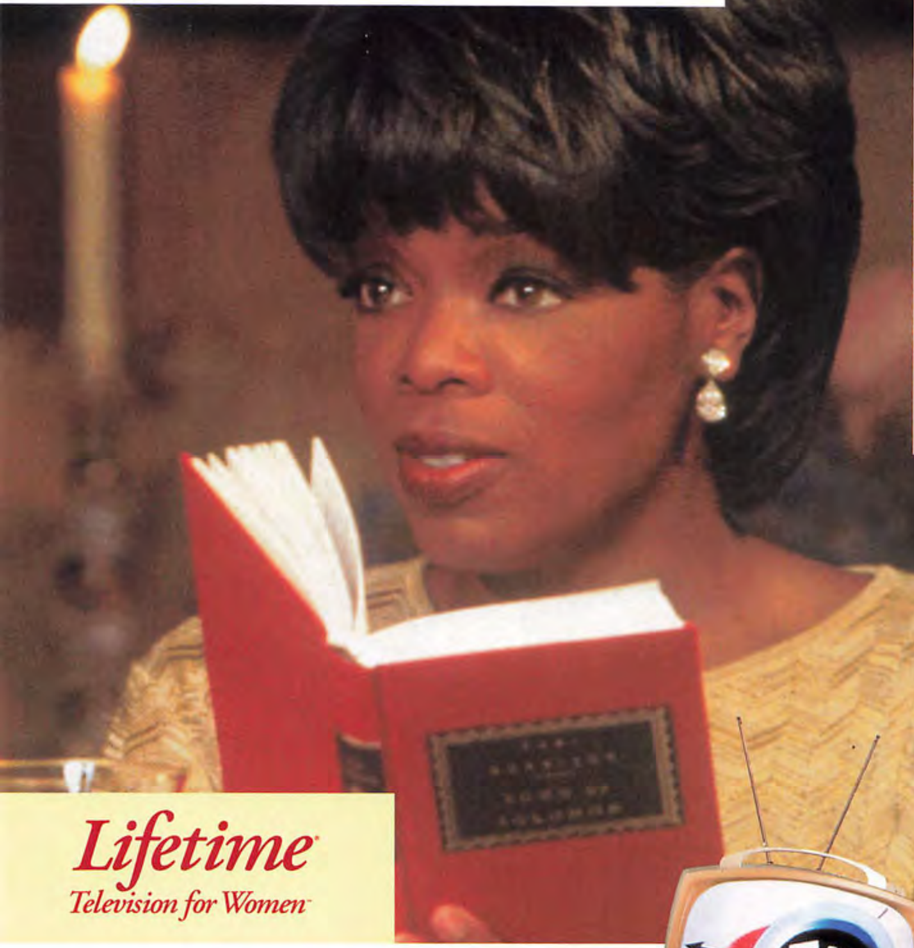
Above: *The Drew Carey Show* is based on the humorously innovative outlook of comedian and author, Drew Carey. Kathy Kinney also stars.

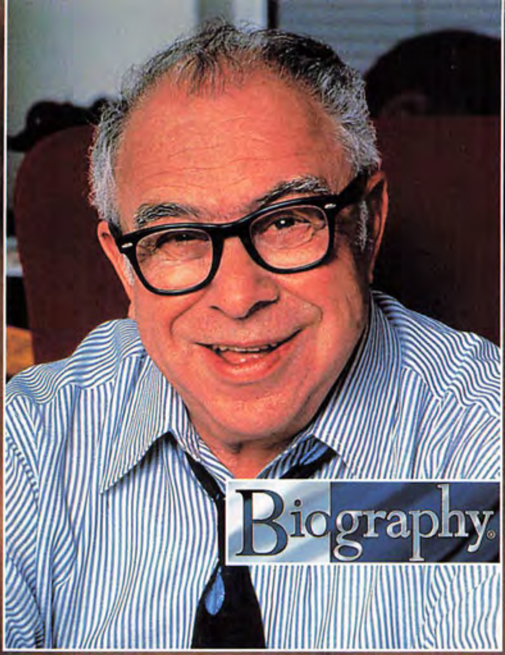
Jenna Elfman and Thomas Gibson star in the new life-affirming romantic comedy series *Dharma and Greg* on ABC.

Above: A feisty animated female character is the star of *Pepper Ann*, a Saturday morning show for kids.

Right: Science combines with improvisational comedy in *Science Court*, a unique series which uses a courtroom as the teaching ground.

BROADCASTING





Dinner with Oprah, a prime-time special which aired on Lifetime, featured Nobel and Pulitzer Prize-winning author Toni Morrison and women from all walks of life sharing their personal observations with host Oprah Winfrey.

Top right: The Biography Channel profiles award-winning journalist Art Buchwald in February.

Left: *Tom Jones* airs on A&E network with Max Beesley in the title role. Samantha Morton plays Sophia.

Host John Henson shows highlights from the day and late-night talk shows in *Talk Soup*, one of the most highly rated shows on the E! network.

For kids, *Disney's One Saturday Morning* block of programming, featuring *Brand Spanking New Doug*, *Recess* and *Pepper Ann*, has shown the greatest ratings growth of any network among youngsters 2 to 11 and is contesting for number one ratings leadership each week.

ABC OWNED TELEVISION STATIONS The TV stations group — 10 outlets reaching almost 25 percent of the nation's households — achieved record revenues in 1997.

The group will benefit from Oprah Winfrey's recent decision to extend her show through the year 2000. *Oprah Winfrey* is carried on seven of the ten stations. Eight of the stations also carry the popular *Rosie O'Donnell Show*. Other successful syndicated programs include *Live! with Regis and Kathie Lee*, *Jeopardy* and *Wheel of Fortune*. ABC continues to have top-rated news operations in New York, Los Angeles, Chicago, Philadelphia and Houston.

ABC RADIO The ABC Radio Division added five owned outlets in 1997, raising its station count to 26. During the year, the division continued its national roll-out of Radio Disney, with a special format aimed at kids. ABC Radio Networks, with 7,200 program affiliations on 2,900 radio stations, now reaches more than 140 million listeners weekly with such programming as *ABC News*, *Paul Harvey News & Comment* and a strong urban lineup featuring Tom Joyner and Doug Banks. ESPN Radio plans to expand with major league baseball broadcasts and the addition of 13 hours of programming each weekday.

BUENA VISTA TELEVISION The company's syndicated television arm distributes original and off-network programming to network affiliates.

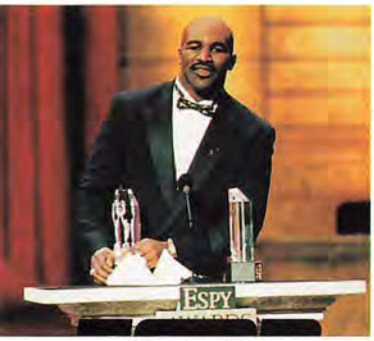
New series distributed during the year include *The Keenan Ivory Wayans Show* and Disney's *Honey, I Shrunk the Kids: The TV Show*, as well as *101 Dalmatians: The Series* and the teen show *Boy Meets World*. Buena Vista Productions, the development and production unit of BVT, produced Lifetime Television's hit game show *Debt*, and two new Comedy Central series, *Make Me Laugh* and *Win Ben Stein's Money*.

Three shows — *Live! With Regis and Kathie Lee*, *Siskel & Ebert* and *Home Improvement* — are in off-network syndication. BVT is also responsible for Disney's pay-per-view activities.

ESPN ESPN is the worldwide leader in sports, reaching 73 million homes. All the ESPN networks and services are 80 percent owned by ABC in partnership with the Hearst Corporation. Together with ABC Sports, ESPN has extended long-term program agreements with major league baseball and top collegiate

The Holy Grail is one of many fascinating historical topics explored on the three-year-old History Channel.

BROADCASTING



Above: Evander Holyfield received three ESPY awards on last year's sports award ceremony on ESPN.

Below: Dianne Sawyer hosts ABC's *Prime Time Live*.

Above: *Nightline* on ABC is hosted by Ted Koppel.

football conferences. ESPN is in its 11th year of airing NFL games on Sunday nights and has renewed contracts with the PGA, the British Open and U.S. Figure Skating. ESPN, Inc. signed multi-year extension agreements for ESPN and ESPN2, and distribution agreements for ESPNEWS with TCI Communications and Time Warner Cable. ESPN recently completed purchase of the Classic Sports Network, which shows footage of many of the best-remembered games in sports history.

ESPN2 With 50 million subscribers, this four-year-old service has been one of the fastest-growing cable networks in the U.S.

ESPNEWS Launched in November 1996, it has enjoyed wide acceptance in its early months.

ESPN INTERNATIONAL Now 16 years old, it reaches 150 million households in more than 150 countries and territories, and in 20 languages. During the coming year, its goal is to bring viewers the most impressive roster of soccer events by extending its agreement to televise the Union of European Football Assn. championship games.

ESPN ENTERPRISES *ESPN Sports Zone*, launched in 1995, remains one of the foremost content sites on the Internet. ESPN Zone, a restaurant and entertainment center, will open in Baltimore this June. A second is scheduled to open in Chicago in spring 1999. The ESPN Skybox on the Disney Cruise Line ships will also set sail in 1998.

CABLE TELEVISION Aside from the wholly-owned Disney Channel, ABC is a partner with others in many of its cable television ventures. In the U.S., it owns 37.5 percent of A&E Network, 50 percent of Lifetime Television, 37.5 percent of The History Channel and 34.4 percent of E! Entertainment Television.

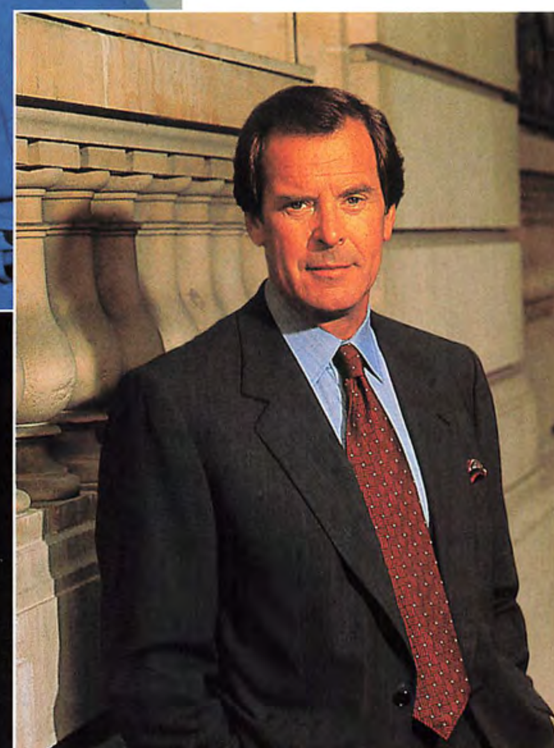
DISNEY CHANNEL The Disney Channel continues to pursue its hybrid strategy encompassing both pay and expanded basic services. As 1998 began it served 30 million households with its commercial-free offerings. The Disney Channel is committed to high-quality family fare. It is increasing production of original programming, ranging from kids' shows to family prime-time movies, series and specials. This year *The Hunchback of Notre Dame* and *101 Dalmatians* will make their world television debuts on Disney Channel.

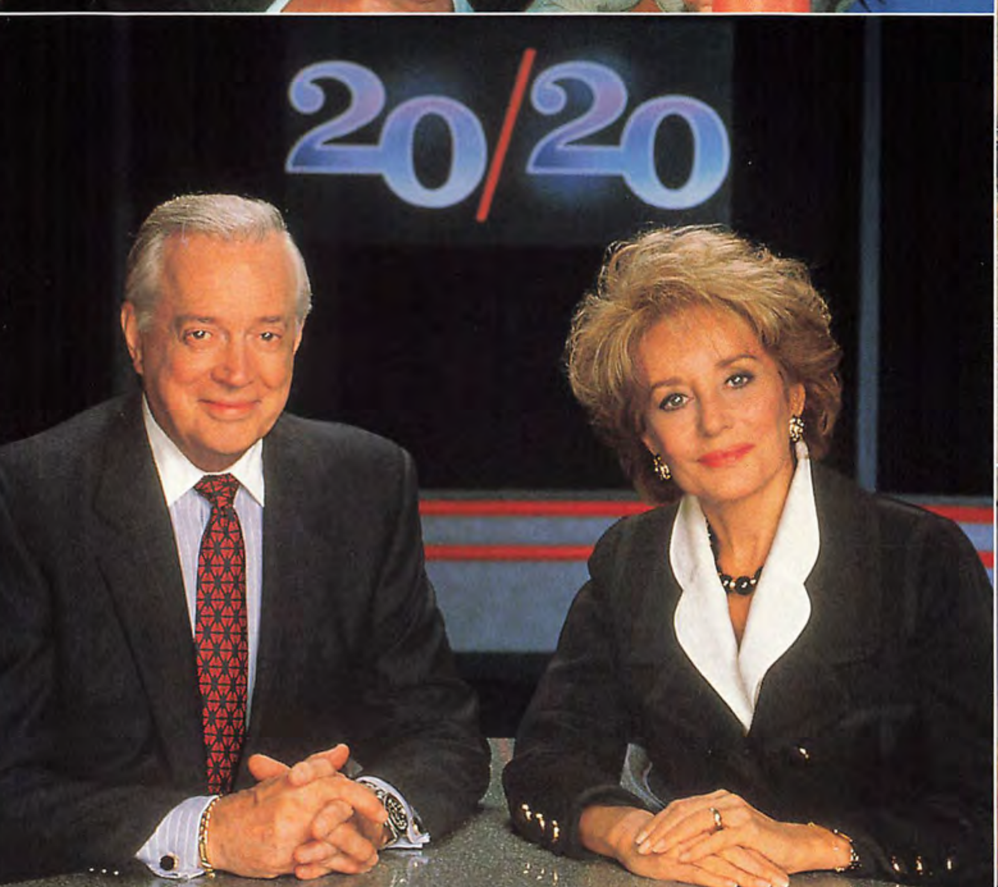
A&E NETWORK Winner of three 1997 Emmy Awards, A&E now reaches more than 70 million subscribers in North America. Its flagship series, *Biography*, branches out this year with a number of biography-based movies, as well as specials depicting renowned international figures. Other brand extensions include biography-based magazines, books and audio books.

The network is also committed to the presentation of high-quality drama. It enters 1998 with such literary classic adaptations as *Tom Jones*, *Vanity Fair* and *Horatio Hornblower* in production. Specials this year include *California and the Dream Seekers* and *The Martial Arts*, along with A&E's critically acclaimed mystery series, *Silent Witness*.

Left: Lisa McRee recently joined Charlie Gibson as co-anchor of *Good Morning America*.

Peter Jennings anchors ABC's Nightly News.





Above: This season, ABC News added a Thursday night version of *20/20*, hosted by Hugh Downs and Barbara Walters.

Cokie Roberts and Sam Donaldson review the week's top news stories on ABC's *This Week*.

BROADCASTING

THE HISTORY CHANNEL Just three years old, The History Channel now serves more than 42 million subscribers. The network provides an array of historical documentaries and special film presentations. Prime-time offerings include a new nightly series, *In Search of History*, and the weekly program *Trains Unlimited*, as well as such specials as *The Fifties*, based on a book by Pulitzer Prize-winning author David Halberstam.

The History Channel International, launched less than three years ago, combines the top-quality programming of A&E and the History Channel. It is available in 50 countries.

LIFETIME TELEVISION Now in more than 70 percent of U.S. households, Lifetime continues to gain viewers in its niche as "television for women."

With the launching of its sports division, Lifetime now telecasts women's hockey and women's professional basketball. Highlights for 1998 include the premieres of a nightly women's magazine program, along with prime-time drama and comedy series. Plans are being developed to expand the Lifetime brand to a second cable channel.

E! ENTERTAINMENT TELEVISION E! has become a leading worldwide provider of entertainment news and information on both TV and the Internet. Viewership is at an all-time high, with 50 million subscribers and 100 percent original programming in prime time, including *E! News Daily*, *Talk Soup* and *E! True Hollywood Story*.

E! Online Entertainment is one of the World Wide Web's leading sources of entertainment news and information.

WALT DISNEY TELEVISION INTERNATIONAL (WDTV-I) In March, WDTV-I launched Disney Channel–France, followed by the arrival of The Disney Channel–Middle East, which debuted just 11 days later to families in 23 countries throughout the Middle East and North Africa. This brings the total number of Disney Channels outside of the United States to six, with three more market-specific channels scheduled for 1998 in Spain, Italy and Germany. These three channels are part of substantial pay television agreements with media giants Sogecable, Telepiu and KirchGruppe respectively.

WDTV-I continues to invest in markets offering substantial growth potential, exemplified by its 1997 equity stake in Latin America's leading pay television entities HBO Olé and HBO Brasil. International Television's pay television involvement in Latin America also includes Disney Weekend, the enormously successful PPV service available through DirectTV's Galaxy Latin America. This service has shattered DirectTV's subscription records.

By extending the reach of Disney Clubs and Disney animation time periods, International Television provides more than 235 hours of programming and 250 million viewers each week. Coupled with the enhanced appeal of the division's program catalogue, International Television now licenses more than 4,000 hours of programming worldwide. The extended programming catalogue includes titles acquired through the ABC merger, Jumbo Pictures, Walt Disney Television Animation and WDTV-I's own production team.

FAIRCHILD PUBLICATIONS Based in New York, Fairchild publishes *W*, *Jane*, *Los Angeles* and nine other fashion and retail trade publications.

With 15 bureaus and more than 700 employees across the globe, Fairchild is one of the world's largest fashion news-gathering networks.

W, a fashion lifestyle magazine, is written for affluent, sophisticated women interested in the international world of fashion. *Jane*, launched in September, is a general-interest periodical for women in their 20's. *Los Angeles* covers the cultural, social and entertainment scene of Southern California.

Above: *The View* on ABC is a live weekday show featuring four women of different ages and experiences: Star Jones, Joy Behar, Meredith Vieira, Debbie Matenopoulos and producer Barbara Walters.

Above: Lifetime Television and ESPN simultaneously telecast the WNBA playoff semifinal games last summer.

Fairchild Publications publishes trend-setting fashion and retail periodicals.

Below: Bear and his friends Cutter the mouse, Pip and Pop the otters and Treelo the lemur delight young viewers on the new Disney Channel show, *Bear in the Big Blue House*.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company acquired the operations of ABC, Inc. ("ABC") on February 9, 1996 and completed its final purchase price allocation and determination of the related intangible assets during the second quarter of 1997. To enhance comparability, certain information for 1996 and 1995 is presented on a "pro forma" basis, which assumes the ABC acquisition and the related final purchase price allocation occurred at the beginning of these periods. The pro forma results are not necessarily indicative of the combined results that would have occurred had the acquisition actually occurred at the beginning of these periods.

The Company's 1997 results, prior-year pro forma amounts and as reported results since the date of the ABC acquisition reflect the impacts of the acquisition including the use of purchase accounting as well as significant increases in amortization of intangible assets, interest expense, the effective income tax rate and shares outstanding.

CONSOLIDATED RESULTS

	As Reported			Pro Forma (Unaudited)	
(in millions, except per share data)	1997	1996	1995	1996	1995
Revenues:					
Creative Content	**$10,937**	$10,159	$ 7,736	$10,607	$ 9,086
Broadcasting	**6,522**	4,078	414	6,129	5,862
Theme Parks and Resorts	**5,014**	4,502	4,001	4,502	4,001
Total	**$22,473**	$18,739	$12,151	$21,238	$18,949
Operating income:[1]					
Creative Content	**$ 1,882**	$ 1,561	$ 1,531	$ 1,555	$ 1,565
Broadcasting	**1,294**	782	76	1,100	982
Theme Parks and Resorts	**1,136**	990	859	990	859
Gain on sale of KCAL	**135**	—	—	—	—
Accounting change	—	(300)	—	(300)	—
Total	**4,447**	3,033	2,466	3,345	3,406
Corporate activities and other	**(367)**	(309)	(239)	(249)	(255)
Net interest expense	**(693)**	(438)	(110)	(698)	(775)
Acquisition-related costs	—	(225)	—	—	—
Income before income taxes	**3,387**	2,061	2,117	2,398	2,376
Income taxes	**(1,421)**	(847)	(737)	(1,067)	(1,069)
Net income	**$ 1,966**	$ 1,214	$ 1,380	$ 1,331	$ 1,307
Earnings per share	**$ 2.86**	$ 1.96	$ 2.60	$ 1.93	$ 1.91
Net income excluding non-recurring items[2]	**$ 1,886**	$ 1,534	$ 1,380	$ 1,514	$ 1,307
Earnings per share excluding non-recurring items[2]	**$ 2.75**	$ 2.48	$ 2.60	$ 2.20	$ 1.91
Amortization of intangible assets included in operating income	**$ 439**	$ 301	$ —	$ 476	$ 476
Average number of common and common equivalent shares outstanding	**687**	619	530	689	685
[1]Includes depreciation and amortization (excluding film cost) of:					
Creative Content	**$ 222**	$ 186	$ 107	$ 230	$ 199
Broadcasting	**508**	382	8	521	510
Theme Parks and Resorts	**408**	358	335	358	335
	$ 1,138	$ 926	$ 450	$ 1,109	$ 1,044

[2]The 1997 results include a $135 million gain from the sale of KCAL-TV. See Note 2 to the Consolidated Financial Statements. The 1996 results include two non-recurring charges. The Company adopted Statement of Financial Accounting Standards No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, which resulted in the Company recognizing a $300 million non-cash charge. In addition, the Company recognized a $225 million charge for costs related to the acquisition of ABC. See Notes 2 and 11 to the Consolidated Financial Statements.

The following discussion of 1997 versus 1996 and 1996 versus 1995 performance is primarily based on pro forma results for 1996 and 1995. The Company believes pro forma results represent the best comparative standard for assessing net income, changes in net income and earnings trends, as the pro forma presentation combines a full year of the results of the Company and its acquired ABC operations. The discussion of consolidated results also includes "as reported" comparisons to the extent there have been material changes in reported amounts. The discussion of Theme Parks and Resorts segment results is on an as reported basis since the pro forma adjustments did not impact this segment.

CONSOLIDATED RESULTS

1997 vs. 1996 Compared to 1996 pro forma results, revenues increased 6% to $22.5 billion, reflecting growth in all business segments. Net income and earnings per share, excluding non-recurring items, increased 25% to $1.9 billion and $2.75, respectively. These results were driven by increased operating income across all business segments, partially offset by an increase in corporate activities and other driven by certain non-recurring items in both the current and prior year. The current year reflects settlements with former senior executives and the prior year reflects certain gains at ABC, primarily related to the sale of an investment in a cellular communications company.

The effective income tax rate compared to 1996 pro forma results decreased in 1997 primarily as a result of a reduction in the ratio of nondeductible amortization of intangible assets to total income before income taxes.

As reported revenues increased 20%, reflecting increases in all business segments and the impact of the acquisition of ABC. Net income, excluding the non-recurring items, increased 23% driven by increased operating income for each business segment. Earnings per share, excluding non-recurring items, increased 11%, reflecting net income growth, partially offset by the impact of additional shares issued in connection with the acquisition. Results for 1997 included a full period of ABC's operations.

1996 vs. 1995 Pro forma revenues increased 12% to $21.2 billion, reflecting growth in all business segments. Net income, excluding non-recurring charges, increased 16% to $1.5 billion, and earnings per share increased 15% to $2.20. These results were driven by increased operating income at the Theme Parks and Resorts and Broadcasting segments.

Pro forma net interest expense decreased 10% to $698 million reflecting lower interest rates and a reduction in net borrowings (the Company's borrowings less cash and liquid investments).

As reported revenues increased 54% to $18.7 billion, reflecting increases in all business segments and the impact of the acquisition of ABC. Net income, excluding the non-recurring charges, increased 11% to $1.5 billion driven by increased operating income for each business segment. Earnings per share, excluding the non-recurring charges, decreased 5% to $2.48, reflecting the impact of additional shares issued in connection with the acquisition.

As reported corporate activities and other increased 29% to $309 million, reflecting higher corporate general and administrative costs and a $55 million gain in 1995 related to the sale of a portion of the Company's investment in Euro Disney. Net interest expense increased to $438 million, reflecting new borrowings in connection with the acquisition, partially offset by lower interest rates.

BUSINESS SEGMENT RESULTS

CREATIVE CONTENT

1997 vs. 1996 Revenues increased 3% or $330 million compared with pro forma 1996 to $10.9 billion, driven by growth of $210 million in the Disney Stores, $143 million in character merchandise licensing, $104 million in television distribution and $88 million in home video, partially offset by declines in publishing revenues of $187 million. Growth at the Disney Stores reflected continued worldwide expansion with 106 new stores opening in 1997, bringing the total number of stores worldwide to 636. New stores contributed $109 million in revenues in the current year. Increases in character merchandise licensing reflected the strength of Winnie the Pooh and Toy Story domestically, and standard characters and 101 Dalmatians worldwide. The increase in television revenues was driven by an increase in the distribution of film and television product in the international television market. Home video results reflected the successful performance of *Toy Story*, *The Hunchback of Notre Dame* and *101 Dalmatians* worldwide and *Bambi* and *Sleeping Beauty* domestically. The decline in publishing revenues related to the operations disposed of during the year.

Operating income increased 21% or $327 million compared with pro forma 1996 to $1.9 billion, reflect-

ing improved results for theatrical distribution, character merchandise licensing and television distribution, partially offset by a reduction in home video results. Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product cost, labor and leasehold expense, were flat at $9.1 billion, reflecting increased amortization in the home video market and continued expansion of the Disney Stores, offset by a reduction in distribution costs in the domestic theatrical market, lower overall costs resulting from the disposition of certain publishing businesses during the year and the write-off of certain theatrical development projects in the prior year.

1996 vs. 1995 Pro forma revenues increased 17% or $1.5 billion to $10.6 billion, driven by growth of $500 million in home video, $274 million in theatrical, $197 million in the Disney Stores and $151 million in character merchandise licensing. Home video revenues reflected *Pocahontas*, *Cinderella* and *The Aristocats* animated titles and *The Santa Clause*, *While You Were Sleeping* and *Crimson Tide* live-action titles domestically, as well as *The Lion King* and the animated version of *101 Dalmatians* internationally. Theatrical revenues reflected the worldwide box office performance of *Toy Story*, *The Rock* and *The Hunchback of Notre Dame*, the international performance of *Pocahontas* and the domestic performance of *Phenomenon*. Revenues growth at the Disney Stores was driven by the opening of 101 new stores in 1996, bringing the total number of stores to 530. Comparable store sales declined 2%, primarily due to the strength of The Lion King merchandise in 1995, and new stores contributed $103 million of sales growth. Merchandise licensing revenues increased due to the strength of standard characters worldwide and the success of targeted marketing programs. Television revenues from program distribution were comparable to 1995, reflecting the success of live-action titles in pay television, offset by the syndication sale of *Home Improvement* in 1995.

Pro forma operating income remained flat at $1.6 billion, reflecting improved results in home video and worldwide merchandise licensing offset by lower theatrical results. Costs and expenses increased 20% or $1.5 billion. The increase was primarily due to higher theatrical distribution and home video selling costs, higher production cost amortization, expansion of the Disney Stores and the write-off of certain theatrical development projects.

BROADCASTING

1997 vs. 1996 Revenues increased 6% or $393 million compared with pro forma 1996 to $6.5 billion, driven by increases of $336 million at ESPN and The Disney Channel, and $74 million at the television network. The increases at ESPN and The Disney Channel were due primarily to higher advertising revenues and affiliate fees due primarily to expansion, subscriber growth and improved advertising rates. Growth in revenues at the television network was primarily the result of improved performance of sports, news and latenight programming, partially offset by a decline in primetime ratings.

Operating income increased 18% or $194 million compared with pro forma 1996 to $1.3 billion, reflecting increases in revenues at ESPN and The Disney Channel, as well as improved results at the television stations, partially offset by decreases at the television network. Results at the television network reflected the impact of lower ratings, partially offset by benefits arising from current period sporting events, improvements in children's programming, continued strength in the advertising market and decreased program amortization. Costs and expenses increased 4% or $199 million. This increase reflected increased programming rights and production costs, driven by international growth at ESPN and increases at the television network, partially offset by benefits arising from reductions in program amortization and other costs at the television network, primarily attributable to the acquisition.

The Company has continued to invest in its existing cable television networks and in new cable ventures to diversify and expand the available distribution channels for acquired and Company programming. During 1997, the Company acquired an equity stake in E! Entertainment Television, an entertainment-related network, invested in a number of international cable ventures and continued its worldwide expansion of The Disney Channel with launches in France and the Middle East. During the first quarter of 1998, the Company acquired the Classic Sports Network, a cable network devoted to memorable sporting events.

The Company's cable operations continue to provide strong earnings growth. The Company's results for 1997 reflect an increase in income before income taxes of $182 million or 28% for mature cable properties compared with pro forma 1996 results, which include the Company's share of earnings from ESPN, The Disney Channel, A&E Television and Lifetime Television. These increases were partially offset by the Company's recognition of its proportionate share of

losses associated with start-up cable ventures. Start-up cable ventures are generally operations that are in the process of establishing distribution channels and a subscriber base and that have not reached their full level of normalized operations. These include various ESPN and Disney Channel start-up cable ventures. Overall, the Company's cable results increased 29% compared with pro forma 1996.

The financial results of ESPN and The Disney Channel are included in Broadcasting operating income. The Company's share of all other cable operations and the ESPN minority interest deduction are reported in "Corporate activities and other" in the consolidated statements of income.

1996 vs. 1995 Pro forma revenues increased 5% or $267 million to $6.1 billion, reflecting a $309 million increase in revenues at ESPN and The Disney Channel, resulting from higher advertising revenues and affiliate fees due primarily to expansion, subscriber growth and improved advertising rates. Increases in revenues were partially offset by a $61 million decrease at the television network and stations due to the impact of ratings deterioration and the absence of the Super Bowl in 1996.

Pro forma operating income increased 12% or $118 million to $1.1 billion, reflecting decreased costs and expenses at the television network, increased revenues at ESPN and The Disney Channel and lower program write-offs at KCAL. Costs and expenses increased 3% or $149 million, reflecting increased program rights and production costs driven by growth at ESPN and The Disney Channel internationally, partially offset by significantly decreased program amortization at the television network, primarily attributable to the acquisition, and lower program write-offs at KCAL.

THEME PARKS AND RESORTS

1997 vs. 1996 Revenues increased 11% or $512 million to $5.0 billion, reflecting growth at the Walt Disney World Resort, which celebrated its 25th Anniversary. Growth at the resort included $272 million from greater guest spending, $111 million from increased occupied rooms and $97 million due to record theme park attendance. Higher guest spending reflected increased merchandise and food and beverage sales, higher admission prices and increased room rates at hotel properties. Increased merchandise spending reflected sales of the 25th Anniversary products and the performance of the World of Disney, the largest Disney retail outlet, which opened in October 1996. The increase in occupied rooms reflected higher occupancy and a complete year of operations at Disney's BoardWalk Resort, which opened in the fourth quarter of 1996. Occupied rooms also increased due to the opening of Disney's Coronado Springs Resort in August 1997. Record theme park attendance resulted from growth in domestic tourist visitation. Disneyland's revenues for the year were flat due to higher guest spending offset by reduced attendance from the prior-year's record level.

Operating income increased 15% or $146 million to $1.1 billion, resulting primarily from higher guest spending, increased occupied rooms and record theme park attendance at the Walt Disney World Resort. Costs and expenses, which consist principally of labor, costs of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment and marketing and sales expenses, increased 10% or $366 million. Increased operating costs were associated with growth in theme park attendance and occupied rooms, higher guest spending and increased marketing and sales expenses primarily associated with Walt Disney World Resort's 25th Anniversary celebration. Additional cost increases resulted from theme park and resort expansions including Disney's Animal Kingdom and Disney Cruise Line, which will begin operations in 1998.

1996 vs. 1995 Revenues increased 13% or $501 million to $4.5 billion, reflecting growth of $191 million due to record theme park attendance, $148 million from greater guest spending, and $52 million due to increased occupied rooms, primarily at the Walt Disney World Resort. Record theme park attendance at both the Walt Disney World Resort and Disneyland Park in 1996 reflected growth in domestic and international tourist visitation. Increased guest spending resulted from higher admission prices, increased sales of food and beverages due to pricing and expanded locations, and higher room rates at hotel and resort properties. The increase in occupied rooms at the Walt Disney World Resort resulted from higher occupancy and a complete year of operations at Disney's All-Star Music Resort, which opened in phases during 1995. Occupied rooms also increased due to the opening of Disney's BoardWalk Resort in the fourth quarter of 1996.

Operating income increased 15% or $131 million to $990 million, resulting primarily from higher theme park attendance, increased guest spending and increased occupied rooms at the Walt Disney World Resort. Costs and expenses increased 12% or $370 mil-

lion, primarily due to increased operating hours in response to higher attendance, expansion of theme park attractions and resorts, increased marketing and sales expenses and increased costs associated with higher guest spending and increased occupied rooms.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates significant cash from operations and has substantial borrowing capacity to meet its operating and discretionary spending requirements. Cash provided by operations increased 53% or $2.4 billion to $7.1 billion in 1997, which includes a full-year's impact of ABC's operations.

In 1997, the Company invested $5.1 billion to develop, produce and acquire rights to film and television properties and $1.9 billion to design and develop new theme park attractions, resort properties, real estate developments and other properties. 1996 investments totaled $3.7 billion and $1.7 billion, respectively.

The $1.4 billion increase in investment in film and television properties was primarily driven by a full year of ABC's television spending.

The $177 million increase in investment in theme parks, resorts and other properties resulted primarily from initiatives including Disney's Animal Kingdom, Disney's Coronado Springs Resort and Disney's California Adventure. Capital spending is expected to increase in 1998 from continued spending at Disney's Animal Kingdom as well as increases related to Disney Cruise Line, Disney's California Adventure, Disney Regional Entertainment and phase three of the Disney All-Star Resort at Walt Disney World.

The Company acquires shares of its stock on an ongoing basis and is authorized as of September 30, 1997 to purchase up to an additional 88 million shares. During 1997, a subsidiary of the Company acquired 8 million shares of the Company's common stock for $633 million. The Company also used $342 million to fund dividend payments during the year.

Since the acquisition of ABC, the Company has reduced its total borrowings and replaced a substantial portion of its commercial paper with longer-term financing. During 1997, total borrowings decreased $1.3 billion to $11.1 billion. The Company borrowed approximately $1.2 billion in 1997 with effective interest rates ranging from 4.4% to 5.9% and maturities in fiscal 1999 through fiscal 2057. Certain of these financing agreements are denominated in foreign currencies for which the Company has entered into cross-currency swap agreements effectively converting these obligations into U.S. dollar denominated LIBOR-based variable rate debt instruments. The Company also established two real estate investment trusts (REITs) and issued equity interests in the REITs to third-party investors in exchange for $1.3 billion. During the fourth quarter of 1997, the Company dissolved one of the REITs and repaid investors $468 million. During the second quarter of 1997, the Company issued approximately $1.2 billion in debt secured by certain assets of its newspaper operations. The secured debt has an interest rate based on one-month LIBOR and a maturity date of September 15, 1999. During the third quarter, $990 million of this debt was assumed by Knight-Ridder, Inc. in connection with the disposition of certain of the Company's newspaper operations. The Company has the capacity to issue up to $2.0 billion in additional debt under a U.S. shelf registration filed in March 1996, and $936 million under a European medium-term note program established in June 1996.

The Company's financial condition remains strong. The Company believes that its cash, other liquid assets, operating cash flows and access to capital markets, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects.

MARKET RISK

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market value of its investments.

Policies and Procedures In the normal course of business, the Company employs established policies and procedures to manage its exposure to changes in interest rates and fluctuations in the value of foreign currencies using a variety of financial instruments.

The Company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company primarily uses interest rate swaps to manage net exposure to interest rate changes related to its portfolio of borrowings. The Company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The Company's objective in managing the exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus

its attention on its core business issues and challenges. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, commitments and anticipated foreign currency revenues. The Company uses option strategies which provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. The principal currencies hedged are the Japanese yen, French franc, German mark, British pound, Canadian dollar, Italian lira and Spanish peseta. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for each of the next five years. The gains and losses on these contracts offset changes in the value of the related exposures.

It is the Company's policy to enter into foreign currency and interest rate transactions only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into foreign currency or interest rate transactions for speculative purposes.

Value At Risk The Company utilizes a "Value-at-Risk" (VAR) model to determine the maximum potential one-day loss in the fair value of its interest rate and foreign exchange sensitive financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. There are various modeling techniques which can be used in the VAR computation. The Company's computations are based on the interrelationships between movements in various currencies and interest rates (a "variance/co-variance" technique). These interrelationships were determined by observing interest rate and foreign currency market changes over the preceding quarter for the calculation of VAR amounts at yearend and over each of the four quarters for the calculation of average VAR amounts during the year. The model includes all of the Company's debt as well as all interest rate and foreign exchange derivatives contracts. The value of foreign exchange options do not change on a one-to-one basis with the underlying currency, as exchange rates vary. Therefore, the hedge coverage assumed to be obtained from each option has been adjusted to reflect its respective sensitivity to changes in currency values. Anticipated transactions, firm commitments and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the Company, nor does it consider the potential effect of favorable changes in market factors. (See Note 12 to the Consolidated Financial Statements regarding the Company's financial instruments at September 30, 1997 and 1996.)

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, follows (in millions):

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Combined Portfolio
VAR as of September 30, 1997	$27	$24	$33
Average VAR during the year ended September 30, 1997	31	22	34

Since the Company utilizes currency sensitive derivative instruments for hedging anticipated foreign currency transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying anticipated transactions.

OTHER MATTERS

The Company is currently working to resolve the potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information systems. The year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. Based on preliminary information, costs of addressing potential problems are not currently expected to have a material adverse impact on the Company's financial position, results of operations or cash flows in future periods. However, if the Company, its customers or vendors are unable to resolve such processing issues in a timely manner, it could result in a material financial risk. Accordingly, the Company plans to devote the necessary resources to resolve all significant year 2000 issues in a timely manner.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	1997	1996	1995
	Year Ended September 30		
Revenues	**$ 22,473**	$ 18,739	$12,151
Costs and expenses	**(18,161)**	(15,406)	(9,685)
Gain on sale of KCAL	**135**	—	—
Accounting change	**—**	(300)	—
Operating income	**4,447**	3,033	2,466
Corporate activities and other	**(367)**	(309)	(239)
Net interest expense	**(693)**	(438)	(110)
Acquisition-related costs	**—**	(225)	—
Income before income taxes	**3,387**	2,061	2,117
Income taxes	**(1,421)**	(847)	(737)
Net income	**$ 1,966**	$ 1,214	$ 1,380
Earnings per share	**$ 2.86**	$ 1.96	$ 2.60
Average number of common and common equivalent shares outstanding	**687**	619	530

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(In millions)	September 30 1997	1996
Assets		
Cash and cash equivalents	**$ 317**	$ 278
Receivables	**3,726**	3,343
Inventories	**942**	951
Film and television costs	**4,401**	3,259
Investments	**1,897**	1,009
Theme parks, resorts and other property, at cost		
Attractions, buildings and equipment	**11,787**	11,019
Accumulated depreciation	**(4,857)**	(4,448)
	6,930	6,571
Projects in process	**1,928**	1,342
Land	**93**	118
	8,951	8,031
Intangible assets, net	**16,011**	18,045
Other assets	**1,531**	1,710
	$37,776	$36,626
Liabilities and Stockholders' Equity		
Accounts payable and other accrued liabilities	**$ 5,577**	$ 5,694
Income taxes payable	**995**	582
Borrowings	**11,068**	12,342
Unearned royalty and other advances	**1,172**	1,179
Deferred income taxes	**1,679**	743
Stockholders' equity		
Preferred stock, $.01 par value		
Authorized — 100 million shares		
Issued — none		
Common stock, $.01 par value		
Authorized — 1.2 billion shares		
Issued — 683 million shares and 682 million shares	**8,534**	8,576
Retained earnings	**9,557**	7,933
Cumulative translation and other	**(12)**	39
	18,079	16,548
Treasury stock, at cost, 8 million shares	**(462)**	(462)
Shares held by TWDC Stock Compensation Fund, at cost, 4 million shares	**(332)**	—
	17,285	16,086
	$37,776	$36,626

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Walt Disney Company and Subsidiaries

(In millions)	Year Ended September 30 1997	1996	1995
Net Income	**$ 1,966**	$ 1,214	$ 1,380
Items Not Requiring Cash Outlays			
Amortization of film and television costs	**3,781**	2,762	1,383
Depreciation	**738**	672	470
Amortization of intangible assets	**439**	301	—
Gain on sale of KCAL	**(135)**	—	—
Accounting change	**—**	300	—
Other	**(15)**	22	133
Changes In			
Investments in trading securities	**—**	85	1
Receivables	**(386)**	(426)	(122)
Inventories	**(6)**	(95)	(156)
Other assets	**(169)**	(160)	(288)
Accounts and taxes payable and accrued liabilities	**566**	(246)	415
Unearned royalty and other advances	**(7)**	274	161
Deferred income taxes	**292**	(78)	133
	5,098	3,411	2,130
Cash Provided by Operations	**7,064**	4,625	3,510
Investing Activities			
Proceeds from disposal of KCAL	**387**	—	—
Proceeds from disposal of publishing operations	**1,214**	—	—
Acquisition of ABC, net of cash acquired	**—**	(8,432)	—
Film and television costs	**(5,054)**	(3,678)	(1,886)
Investments in theme parks, resorts and other property	**(1,922)**	(1,745)	(896)
Investment in and loan for E! Entertainment	**(321)**	—	—
Purchases of marketable securities	**(56)**	(18)	(1,033)
Proceeds from sales of marketable securities	**31**	409	1,460
Other	**(180)**	—	67
	(5,901)	(13,464)	(2,288)
Financing Activities			
Borrowings	**2,437**	13,560	786
Proceeds from formation of REITs	**1,312**	—	—
Reduction of borrowings	**(4,078)**	(4,872)	(772)
Repurchases of common stock	**(633)**	(462)	(349)
Dividends	**(342)**	(271)	(180)
Exercise of stock options and other	**180**	85	183
	(1,124)	8,040	(332)
Increase (Decrease) in Cash and Cash Equivalents	**39**	(799)	890
Cash and Cash Equivalents, Beginning of Year	**278**	1,077	187
Cash and Cash Equivalents, End of Year	**$ 317**	$ 278	$ 1,077
Supplemental disclosure of cash flow information:			
Interest paid	**$ 777**	$ 379	$ 123
Income taxes paid	**$ 958**	$ 689	$ 557

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions, except per share data)	Shares	Common Stock	Retained Earnings	Cumulative Translation and Other	Treasury Stock	TWDC Stock Compensation Fund	Total
Balance at September 30, 1994	524	$ 945	$5,790	$ 59	$(1,286)	$ —	$ 5,508
Exercise of stock options, net	8	281	—	—	—	—	281
Common stock repurchased, net	(8)	—	—	—	(317)	—	(317)
Dividends ($.35 per share)	—	—	(180)	—	—	—	(180)
Cumulative translation and other	—	—	—	(21)	—	—	(21)
Net income	—	—	1,380	—	—	—	1,380
Balance at September 30, 1995	524	1,226	6,990	38	(1,603)	—	6,651
ABC acquisition impact	155	7,206	—	—	1,603	—	8,809
Exercise of stock options, net	3	144	—	—	—	—	144
Common stock repurchased	(8)	—	—	—	(462)	—	(462)
Dividends ($.42 per share)	—	—	(271)	—	—	—	(271)
Cumulative translation and other	—	—	—	1	—	—	1
Net income	—	—	1,214	—	—	—	1,214
Balance at September 30, 1996	674	8,576	7,933	39	(462)	—	16,086
Exercise of stock options, net	5	(42)	—	—	—	301	259
Common stock repurchased	(8)	—	—	—	—	(633)	(633)
Dividends ($.51 per share)	—	—	(342)	—	—	—	(342)
Cumulative translation and other	—	—	—	(51)	—	—	(51)
Net income	—	—	1,966	—	—	—	1,966
Balance at September 30, 1997	**671**	**$8,534**	**$9,557**	**$(12)**	**$ (462)**	**$(332)**	**$17,285**

See Notes to Consolidated Financial Statements

NOTE 1. DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Walt Disney Company, together with its subsidiaries (the "Company"), is a diversified international entertainment organization with operations in the following businesses.

CREATIVE CONTENT

The Company produces and acquires live-action and animated motion pictures for distribution to the theatrical, home video and television markets. The Company also produces original television programming for the network and first-run syndication markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and most foreign markets.

The Company licenses the name "Walt Disney," as well as the Company's characters, visual and literary properties and songs and music, to various consumer manufacturers, retailers, show promoters and publishers throughout the world. The Company also engages in direct retail distribution principally through the Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the Company produces audio products for all markets, as well as film, video and computer software products for the educational marketplace.

BROADCASTING

The Company operates the ABC Television Network which has affiliated stations providing coverage to U.S. television households. The Company also owns television and radio stations, most of which are affiliated with the ABC Television Network and the ABC Radio Networks. The Company's cable and international broadcast operations are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in joint ventures in foreign-based television operations and television production and distribution entities. The primary domestic cable programming services, which operate principally through joint ventures, are ESPN, the A&E Television Networks, Lifetime Television and E! Entertainment Television. The Company provides programming for and operates The Disney Channel, a cable and satellite television programming service.

THEME PARKS AND RESORTS

The Company operates the Walt Disney World Resort® in Florida, and Disneyland Park,® the Disneyland Hotel and the Disneyland Pacific Hotel in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot and the Disney-MGM Studios, thirteen resort hotels and a complex of villas and suites, a nighttime entertainment complex, a shopping village, conference centers, campgrounds, golf courses, water parks and other recreational facilities. The Company earns royalties on revenues generated by the Tokyo Disneyland® theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation. The Company also has an investment in Euro Disney S.C.A. ("Euro Disney"), a publicly held French corporation that operates Disneyland Paris. The Company's Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The Company also manages and markets vacation ownership interests in the Disney Vacation Club. Included in Theme Parks and Resorts are the Company's National Hockey League franchise, the Mighty Ducks of Anaheim, and its ownership interest in the Anaheim Angels, a Major League Baseball team.

SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements of the Company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions.

Accounting Changes During 1997, the Company adopted SFAS 123 *Accounting for Stock-Based Compensation* ("SFAS 123"), which requires disclosure of the fair value and other characteristics of stock options (see Note 9). The Company has chosen under the provisions of SFAS 123 to continue using the intrinsic-value method of accounting for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* ("APB 25").

During 1996, the Company adopted SFAS 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* ("SFAS 121") (see Note 11).

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates

and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

Revenue Recognition Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

Broadcast advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company's primary cable programming services are recognized as services are provided.

Revenues from participants and sponsors at the theme parks are generally recorded over the period of the applicable agreements commencing with the opening of the related attraction.

Cash and Cash Equivalents Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Investments Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or stockholders' equity, respectively. All other equity securities are accounted for using either the cost method or the equity method. The Company's share of earnings or losses in its equity investments accounted for under the equity method is included in "Corporate activities and other" in the consolidated statements of income.

Inventories Carrying amounts of merchandise, materials and supplies inventories are generally determined on a moving average cost basis and are stated at the lower of cost or market.

Film and Television Costs Film and television production and participation costs are expensed based on the ratio of the current period's gross revenues to estimated total gross revenues from all sources on an individual production basis. Estimates of total gross revenues can change significantly due to the level of market acceptance of film and television products. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted. Such adjustments could have a material effect on results of operations in future periods.

Television broadcast program licenses and rights and related liabilities are recorded when the license period begins and the program is available for use. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on accelerated bases related to the usage of the program. Television network series costs and multi-year sports rights are charged to expense based on the flow of anticipated revenue.

Theme Parks, Resorts and Other Property Theme parks, resorts and other property are carried at cost. Depreciation is computed on the straight-line method based upon estimated useful lives ranging from three to fifty years.

Intangible/Other Assets Intangible assets are amortized over periods ranging from two to forty years. The Company continually reviews the recoverability of the carrying value of these assets using the methodology prescribed in SFAS 121. The Company also reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount including associated intangible assets of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

Risk Management Contracts In the normal course of business, the Company employs a variety of off-balance-sheet financial instruments to manage its exposure to fluctuations in interest and foreign currency exchange rates, including interest rate and cross-currency swap agreements, forward, option, swaption and spreadlock contracts.

The Company designates and assigns the financial instruments as hedges for specific assets, liabilities or anticipated transactions. When hedged assets or liabilities are sold or extinguished or the anticipated transactions being hedged are no longer expected to occur, the Company recognizes the gain or loss on the designated hedging financial instruments.

The Company classifies its derivative financial instruments as held or issued for purposes other than trading. Option premiums and unrealized losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded in the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in accounts payable and other accrued liabilities. Gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. Cash flows from hedges are classified in the statement of cash flows under the same category as the cash flows from the related assets, liabilities or anticipated transactions.

The Company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest and exchange rates shift as adjustments to interest income or expense over the life of the swaps. Gains and losses on the termination of swap agreements, prior to their original maturity, are deferred and amortized over the remaining term of the underlying hedged transactions.

Gains and losses arising from foreign currency forward and option contracts are recognized as offsets of gains and losses resulting from the items being hedged.

Earnings Per Share Earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect.

In February 1997, the Financial Accounting Standards Board issued SFAS 128 *Earnings per Share* ("SFAS 128"), which specifies the computation, presentation, and disclosure requirements for earnings per share ("EPS"). It replaces the presentation of primary and fully diluted EPS with basic and diluted EPS. Basic EPS excludes all dilution. It is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company will adopt SFAS 128 as of the first quarter of fiscal 1998 and restate all previously reported per share amounts to conform to the new presentation. (See Note 8 regarding the impact of SFAS 128 on the Company's reported EPS.)

Reclassifications Certain reclassifications have been made in the 1996 and 1995 financial statements to conform to the 1997 presentation including the reclassification of certain equity investments out of other assets into investments in the consolidated balance sheets.

NOTE 2. ACQUISITION AND DISPOSITIONS

On February 9, 1996, the Company completed its acquisition of ABC. The aggregate consideration paid to ABC shareholders consisted of $10.1 billion in cash and 155 million shares of Company common stock valued at $8.8 billion based on the stock price as of the date the transaction was announced.

The acquisition has been accounted for as a purchase and the acquisition cost of $18.9 billion was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. Assets acquired totaled $4.0 billion (of which $1.5 billion was cash) and liabilities assumed were $4.3 billion. A total of $19.0 billion, representing the excess of acquisition cost over the fair value of ABC's net tangible assets, was allocated to intangible assets and is being amortized over forty years. The Company completed its final purchase price allocation and determination of related goodwill, deferred taxes and other accounts during the second quarter of 1997. At that time, the Company also reclassified certain provisions for acquired broadcast programming out of accrued liabilities into film and television costs in the consolidated balance sheets.

In connection with the acquisition, all common shares of the Company outstanding immediately prior to the effective date of the acquisition were canceled and replaced with new common shares and all treasury shares were canceled and retired.

The Company's consolidated results of operations have incorporated ABC's activity from the effective date of the acquisition. The unaudited pro forma information below presents combined results of operations as if the acquisition had occurred at the beginning of the respective years presented. The unaudited pro forma information is not necessarily indicative

of the results of operations of the combined company had the acquisition occurred at the beginning of the years presented, nor is it necessarily indicative of future results.

	Year Ended September 30,	
	1996	1995
Revenues	$21,238	$18,949
Net income[(a)]	1,331	1,307
Earnings per share[(a)]	1.93	1.91

[(a)] 1996 includes the impact of a $300 million non-cash charge related to the initial adoption of a new accounting standard (see Note 11). The charge reduced earnings per share by $0.27 for the year.

During the second quarter of 1996, the Company recognized a $225 million charge for costs related to the acquisition, which is not included in the above pro forma amounts. Acquisition-related costs consist principally of interest costs related to imputed interest for the period from the effective date of the acquisition until March 14, 1996, the date that cash and stock consideration was issued to ABC shareholders.

As a result of the ABC acquisition, the Company sold its independent Los Angeles television station KCAL during the first quarter of 1997 for $387 million, resulting in a gain of $135 million.

During the third and fourth quarters of 1997, the Company disposed of most of the publishing businesses acquired with ABC to various third parties for consideration approximating their carrying amount. Proceeds consisted of $1.2 billion in cash, $1.0 billion in debt assumption and preferred stock convertible to common stock with a market value of $660 million. Results of operations for the publishing businesses included in the Creative Content segment were as follows:

	Year Ended September 30,	
	1997	1996[(a)]
Revenues	**$839**	$714
Operating income	**189**	93

[(a)] 1996 amounts reflect the publishing operations from the date of the ABC acquisition.

NOTE 3. INVESTMENT IN EURO DISNEY

Euro Disney operates the Disneyland Paris theme park and resort complex on a 4,800-acre site near Paris, France. The Company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 1997, the Company's recorded investment in Euro Disney was $355 million. The quoted market value of the Company's Euro Disney shares at September 30, 1997 was approximately $415 million.

In connection with the financial restructuring of Euro Disney in 1994, Euro Disney Associés S.N.C. ("Disney SNC"), a wholly-owned affiliate of the Company, entered into a lease arrangement with a noncancelable term of 12 years (the "Lease") related to substantially all of the Disneyland Paris theme park assets, and then entered into a 12-year sublease agreement (the "Sublease") with Euro Disney. Remaining lease rentals at September 30, 1997 of FF 9.1 billion ($1.6 billion) receivable from Euro Disney under the Sublease approximate the amounts payable by Disney SNC under the Lease. At the conclusion of the Sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the Lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the Lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the theme park assets, estimated to be $1.3 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Also as part of the restructuring, the Company agreed to arrange for the provision of a 10-year unsecured standby credit facility of approximately $185 million, upon request, bearing interest at PIBOR. As of September 30, 1997, Euro Disney had not requested the Company establish this facility. The Company also agreed, as long as any of the restructured debt is outstanding, to maintain ownership of at least 34% of the outstanding common stock of Euro Disney until June 1999, at least 25% for the subsequent five years and at least 16.67% for an additional term thereafter.

Euro Disney's consolidated financial statements are prepared in accordance with accounting principles generally accepted in France ("French GAAP"). U.S. generally accepted accounting principles ("U.S. GAAP") differ in certain significant respects from French GAAP applied by Euro Disney, principally as they relate to accounting for leases and the calculation of interest expense relating to debt affected by Euro Disney's financial restructuring. The Company records its equity share of Euro Disney's operating results calculated in accordance with U.S. GAAP.

of the results of operations of the combined company had the acquisition occurred at the beginning of the years presented, nor is it necessarily indicative of future results.

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During the third and fourth quarters of 1997, the Company disposed of most of the publishing businesses acquired with ABC to various third parties for consideration approximating their carrying amount. Proceeds consisted of $1.2 billion in cash, $1.0 billion in debt assumption and preferred stock convertible to common stock with a market value of $660 million. Results of operations for the publishing businesses included in the Creative Content segment were as follows:

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[a] 1996 amounts reflect the publishing operations from the date of the ABC acquisition.

NOTE 3. INVESTMENT IN EURO DISNEY

Euro Disney operates the Disneyland Paris theme park and resort complex on a 4,800-acre site near Paris, France. The Company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 1997, the Company's recorded investment in Euro Disney was $355 million. The quoted market value of the Company's Euro Disney shares at September 30, 1997 was approximately $415 million.

In connection with the financial restructuring of Euro Disney in 1994, Euro Disney Associés S.N.C. ("Disney SNC"), a wholly-owned affiliate of the Company, entered into a lease arrangement with a noncancelable term of 12 years (the "Lease") related to substantially all of the Disneyland Paris theme park assets, and then entered into a 12-year sublease agreement (the "Sublease") with Euro Disney. Remaining lease rentals at September 30, 1997 of FF 9.1 billion ($1.6 billion) receivable from Euro Disney under the Sublease approximate the amounts payable by Disney SNC under the Lease. At the conclusion of the Sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the Lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the Lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the theme park assets, estimated to be $1.3 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Also as part of the restructuring, the Company agreed to arrange for the provision of a 10-year unsecured standby credit facility of approximately $185 million, upon request, bearing interest at PIBOR. As of September 30, 1997, Euro Disney had not requested the Company establish this facility. The Company also agreed, as long as any of the restructured debt is outstanding, to maintain ownership of at least 34% of the outstanding common stock of Euro Disney until June 1999, at least 25% for the subsequent five years and at least 16.67% for an additional term thereafter.

Euro Disney's consolidated financial statements are prepared in accordance with accounting principles generally accepted in France ("French GAAP"). U.S. generally accepted accounting principles ("U.S. GAAP") differ in certain significant respects from French GAAP applied by Euro Disney, principally as they relate to accounting for leases and the calculation of interest expense relating to debt affected by Euro Disney's financial restructuring. The Company records its equity share of Euro Disney's operating results calculated in accordance with U.S. GAAP.

NOTE 4. FILM AND TELEVISION COSTS

	1997	1996
Theatrical film costs		
Released, less amortization	**$1,691**	$1,419
In-process	**1,855**	1,472
	3,546	2,891
Television costs		
Released, less amortization	**276**	246
In-process	**279**	96
	555	342
Television broadcast rights	**300**	26
	$4,401	$3,259

Based on management's total gross revenue estimates as of September 30, 1997, approximately 79% of unamortized film and television costs (except in-process) are expected to be amortized during the next three years.

NOTE 5. BORROWINGS

	Effective Interest Rate	Fiscal Year Maturity	1997	1996
Commercial paper[a]	6.2%	1998	**$ 2,019**	$ 4,185
U.S. dollar notes and debentures[b]	6.5	1998–2093	**5,796**	4,399
Dual currency and foreign notes[c]	5.4	1998–2001	**1,854**	1,987
Senior participating notes[d]	6.3	2000–2001	**1,145**	1,099
Other	8.2	1998–2027	**254**	672
	6.3		**$11,068**	$12,342

[a] The Company has established bank facilities totaling $3.2 billion which expire in four years. Under the bank facilities, the Company has the option to borrow at various interest rates. The effective interest rate reflects the effect of interest rate swaps entered into with respect to certain of these borrowings.

[b] Includes an $821 million minority interest in a real estate investment trust established by the Company and $300 million of borrowings due in 2093. The effective interest rate reflects the effect of interest rate swaps entered into with respect to certain of these borrowings.

[c] Denominated principally in U.S. dollars, Japanese yen, Australian dollars and Italian lira. The effective interest rate reflects the effect of interest rate and cross-currency swaps entered into with respect to certain of these borrowings.

[d] The average coupon rate is 2.7% on $1.3 billion face value of notes. Additional interest may be paid based on the performance of designated portfolios of films.

Borrowings, excluding commercial paper, have the following scheduled maturities:

1998	$ 844
1999	1,472
2000	1,360
2001	2,026
2002	—
Thereafter	3,347

The Company capitalizes interest on assets constructed for its theme parks, resorts and other property, and on theatrical and television productions in process. In 1997, 1996 and 1995, respectively, total interest costs incurred were $841 million, $545 million and $236 million, of which $100 million, $66 million and $58 million were capitalized.

NOTE 6. INCOME TAXES

	1997	1996	1995
Income before income taxes			
Domestic (including U.S. exports)	**$3,193**	$1,822	$1,908
Foreign subsidiaries	**194**	239	209
	$3,387	$2,061	$2,117
Income tax provision			
Current			
Federal	**$1,023**	$ 389	$ 325
State	**203**	101	68
Foreign (including withholding)	**190**	235	184
	1,416	725	577
Deferred			
Federal	**21**	106	170
State	**(16)**	16	(10)
	5	122	160
	$1,421	$ 847	$ 737

Components of Deferred Tax Assets and Liabilities	1997	1996
Deferred tax assets		
Accrued liabilities	**$(1,129)**	$(1,622)
Other, net	**(35)**	(111)
Total deferred tax assets	**(1,164)**	(1,733)
Deferred tax liabilities		
Depreciable, amortizable and other property	**2,266**	1,907
Licensing revenues	**179**	215
Leveraged leases	**258**	254
Investment in Euro Disney	**90**	50
Total deferred tax liabilities	**2,793**	2,426
Net deferred tax liability before valuation allowance	**1,629**	693
Valuation allowance	**50**	50
Net deferred tax liability	**$ 1,679**	$ 743

Reconciliation of Effective Income Tax Rate	1997	1996	1995
Federal income tax rate	**35.0%**	35.0%	35.0%
Nondeductible amortization of intangible assets	**4.4**	5.1	—
State taxes, net of federal income tax benefit	**3.6**	3.7	1.9
Other, net	**(1.0)**	(2.7)	(2.1)
	42.0%	41.1%	34.8%

In 1997, 1996 and 1995, income tax benefits attributable to employee stock option transactions of $81 million, $44 million and $90 million, respectively, were allocated to stockholders' equity.

NOTE 7. PENSION AND OTHER BENEFIT PROGRAMS

The Company maintains pension plans and postretirement medical benefit plans covering most of its domestic employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 are not eligible for the postretirement medical benefits. Pension benefits are generally based on years of service and/or compensation. The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and postretirement medical benefit plans.

	Pension Plans		Postretirement Benefit Plans	
	1997	1996	1997	1996
Reconciliation of funded status of the plans and the amounts included in the Company's consolidated balance sheets:				
Projected benefit obligations				
Beginning obligations	**$(1,402)**	$ (604)	**$(271)**	$(162)
ABC's plans at acquisition	**—**	(774)	**—**	(99)
Service cost	**(73)**	(68)	**(10)**	(12)
Interest cost	**(106)**	(81)	**(21)**	(16)
Gains	**9**	88	**5**	10
Benefits paid	**62**	37	**9**	8
Other	**72**	—	**(5)**	—
Ending obligations	**(1,438)**	(1,402)	**(293)**	(271)
Fair value of plans' assets				
Beginning fair value	**1,442**	632	**138**	107
ABC's plans at acquisition	**—**	631	**—**	—
Actual return on plans' assets	**304**	149	**27**	20
Contributions	**111**	74	**6**	23
Benefits paid	**(71)**	(44)	**(9)**	(12)
Other	**(60)**	—	**—**	—
Ending fair value	**1,726**	1,442	**162**	138
Funded status of the plans	**288**	40	**(131)**	(133)
Unrecognized net gain	**(219)**	(42)	**(20)**	(9)
Unrecognized prior service benefit	**(2)**	(2)	**(34)**	(75)
Other	**28**	—	**—**	—
Net balance sheet asset (liability)	**$ 95**	$ (4)	**$(185)**	$(217)

	Pension Plans		Postretirement Benefit Plans	
	1997	1996	1997	1996
Rate assumptions				
Discount rate	**7.8%**	7.8%	**7.8%**	7.8%
Rate of return on plans' assets	**10.5%**	10.0%	**10.5%**	10.0%
Salary increases	**5.4%**	5.6%	**n/a**	n/a
Annual increase in cost of benefits	**n/a**	n/a	**6.7%**	7.0%

The annual increase in cost of postretirement benefits of 6.7% is assumed to decrease .3 ppts per year until stabilizing at 5.5%. An increase in the assumed benefits cost trend of 1 ppt for each year would increase the postretirement benefit obligation at September 30, 1997 by $51 million.

The Company's accumulated pension benefit obligation at September 30, 1997 was $1.3 billion, of which 97.8% was vested. The accumulated postretirement benefit obligation for all plans at September 30, 1997 comprised 48% retirees, 18% fully eligible active participants and 34% other active participants.

The income statement cost of the pension plans for 1997, 1996 and 1995 totaled $45 million, $58 million and $33 million, respectively. The income statement credit for the postretirement benefit plans for the same years was $18 million, $16 million and $43 million, respectively. The discount rate, salary increase rate, rate of return on plans' assets and annual increase in cost of benefits were 7.5%, 5.8%, 9.5%, and 7.0%, respectively, in 1995.

NOTE 8. STOCKHOLDERS' EQUITY

The Company has historically attempted to increase the long-term value of its shares by the acquisition of its stock. As of September 30, 1997, the Company's share repurchase program authorized the purchase of up to 88 million shares. In December 1996, the Company established the TWDC Stock Compensation Fund pursuant to the repurchase program to acquire shares of the Company for the purpose of funding certain stock-based compensation. Any shares acquired by the fund that are not utilized must be disposed of by December 31, 1999.

In the first quarter of 1998, the Company will adopt the provisions of SFAS 128, which will require the presentation of diluted and basic EPS. Early adoption of SFAS 128 is not permitted. Diluted EPS under the new standard does not differ from the Company's current EPS. If SFAS 128 had been adopted for the periods presented, the basic EPS amounts would have been $2.92, $1.98 and $2.65 for 1997, 1996 and 1995, respectively.

The Company has a stockholders' rights plan, which becomes operative in certain events involving the acquisition of 25% or more of the Company's common stock by any person or group in a transaction not approved by the Company's Board of Directors. Upon the occurrence of such an event, each right, unless redeemed by the Board, entitles its holder to purchase for $350 an amount of common stock of the Company, or in certain circumstances the acquirer, having a $700 market value. In connection with the rights plan, 7 million shares of preferred stock were reserved.

NOTE. 9 STOCK INCENTIVE PLANS

Under various plans, the Company may grant stock options and other awards to key executive, management and creative personnel at exercise prices equal to or exceeding the market price at the date of grant. In general, options become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. In certain cases for senior executives, options become exercisable over periods up to 10 years and expire up to 15 years after date of grant. Shares available for future option grants at September 30, 1997, totaled 45 million.

The following table summarizes information about stock option transactions (shares in millions):

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**63**	**$47.51**	35	$33.60	39	$27.73
Awards:						
Canceled	**(6)**	**57.95**	(2)	51.29	(4)	35.99
Granted	**9**	**76.93**	32	58.90	8	49.42
Exercised	**(5)**	**33.41**	(3)	31.59	(8)	22.02
Transferred (ABC)	—		1	33.15	—	
Outstanding at September 30	**61**	**$52.32**	63	$47.51	35	$33.60
Exercisable at September 30	**21**	**$35.31**	17	$28.21	15	$24.58

The following table summarizes information about stock options outstanding at September 30, 1997 (shares in millions):

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$13–$ 20	8	1.27	$ 17.70	7	$17.70
$20–$ 30	4	3.31	26.16	3	26.04
$30–$ 40	3	5.06	36.30	2	35.33
$40–$ 50	7	6.48	42.95	4	42.81
$50–$ 60	8	7.82	56.46	4	56.82
$60–$ 70	20	9.17	63.45	1	62.89
$70–$ 80	7	10.23	76.52	—	
$80–$ 90	2	9.73	81.44	—	
$90–$127	2	14.00	110.80	—	
	61			21	

During fiscal year 1997, the Company adopted SFAS 123 and under the provisions of the new standard has elected to continue using the intrinsic-value method of accounting for stock-based awards granted to employees in accordance with APB 25. Accordingly, the Company has not recognized compensation expense for its stock-based awards to employees. The following table reflects pro forma net income and earnings per share had the Company elected to adopt the fair value approach of SFAS 123:

	1997	1996
Net income:		
As reported	**$1,966**	$1,214
Pro forma	**1,870**	1,185
Earnings per share:		
As reported	**2.86**	1.96
Pro forma	**2.73**	1.91

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

The weighted average fair values of options at their grant date during 1997 and 1996, where the exercise price equals the market price on the grant date, were $27.26 and $23.01, respectively. The weighted average fair value of options at their grant date during 1996, where the exercise price exceeds the market price on the grant date, was $18.61. No such options were granted during 1997. The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The following summarizes the weighted average of the assumptions used in the model:

	1997	1996
Risk-free interest rate	**6.4%**	6.2%
Expected years until exercise	**6.1**	7.1
Expected stock volatility	**23%**	23%
Dividend yield	**.71%**	.69%

NOTE 10. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

	1997	1996
Receivables		
Trade, net of allowances	**$ 3,104**	$ 2,875
Other	**622**	468
	$ 3,726	$ 3,343
Accounts payable and other accrued liabilities		
Accounts payable	**$ 4,609**	$ 4,835
Payroll and employee benefits	**847**	757
Other	**121**	102
	$ 5,577	$ 5,694
Intangible assets		
Cost in excess of ABC's net assets acquired	**$14,307**	$16,079
Trademark	**1,100**	1,100
FCC licenses	**1,100**	1,100
Other	**211**	79
Accumulated amortization	**(707)**	(313)
	$16,011	$18,045

NOTE 11. SEGMENTS

Business Segments	1997	1996	1995
Revenues			
Creative Content	$10,937	$10,159	$ 7,736
Broadcasting	6,522	4,078	414
Theme Parks and Resorts	5,014	4,502	4,001
	$22,473	$18,739	$12,151
Operating income			
Creative Content	$ 1,882	$ 1,561	$ 1,531
Broadcasting	1,294	782	76
Theme Parks and Resorts	1,136	990	859
KCAL gain	135	—	—
Accounting change	—	(300)	—
	$ 4,447	$ 3,033	$ 2,466
Capital expenditures			
Creative Content	$ 301	$ 359	$ 232
Broadcasting	152	113	8
Theme Parks and Resorts	1,266	1,196	635
Corporate	203	77	21
	$ 1,922	$ 1,745	$ 896
Depreciation expense			
Creative Content	$ 187	$ 163	$ 107
Broadcasting	104	104	8
Theme Parks and Resorts	408	358	335
Corporate	39	47	20
	$ 738	$ 672	$ 470
Identifiable assets			
Creative Content	$ 8,832	$ 8,837	$ 5,232
Broadcasting	19,036	19,576	564
Theme Parks and Resorts	8,051	7,066	6,149
Corporate	1,857	1,147	2,661
	$37,776	$36,626	$14,606
Supplemental revenues data			
Creative Content			
Theatrical product	$ 5,540	$ 5,306	$ 4,453
Consumer products	2,992	2,597	2,120
Broadcasting			
Advertising	4,937	3,092	98
Theme Parks and Resorts			
Merchandise, food and beverage	1,754	1,555	1,424
Admissions	1,603	1,493	1,346

Geographic Segments	1997	1996	1995
Revenues			
United States	$17,868	$14,422	$ 8,876
United States export	874	746	608
Europe	2,073	2,086	1,677
Rest of world	1,658	1,485	990
	$22,473	$18,739	$12,151
Operating income			
United States	$ 3,712	$ 2,229	$ 1,665
Europe	499	633	486
Rest of world	397	382	402
Unallocated expenses	(161)	(211)	(87)
	$ 4,447	$ 3,033	$ 2,466
Identifiable assets			
United States	$35,985	$34,762	$13,438
Europe	1,275	1,495	1,060
Rest of world	516	369	108
	$37,776	$36,626	$14,606

During the second quarter of 1996, the Company implemented SFAS 121. This new accounting standard changes the method that companies use to evaluate the carrying value of such assets by, among other things, requiring companies to evaluate assets at the lowest level at which identifiable cash flows can be determined. The implementation of SFAS 121 resulted in the Company recognizing a $300 million non-cash charge related principally to certain assets included in the Theme Parks and Resorts segment.

NOTE 12. FINANCIAL INSTRUMENTS

Investments As of September 30, 1997 and 1996, the Company held $137 million and $104 million, respectively, of securities classified as available-for-sale. In 1997 and 1996, realized gains and losses on available-for-sale securities, determined principally on an average cost basis, and unrealized gains and losses on available-for-sale securities were not material.

Interest Rate Risk Management The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. The Company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The Company uses interest rate swaps and other instruments to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. Significant interest rate risk management instruments held by the Company at September 30, 1997 and 1996 included pay-floating and pay-fixed swaps and swaption contracts. Pay-fixed swaps effectively converted floating rate obligations to fixed rate instruments. Pay-floating swaps effectively converted medium-term obligations and senior participating notes to commercial paper or LIBOR-based variable rate instruments. These swap agreements expire in one to 15 years. Swaption contracts were designated as hedges of floating rate debt and expire within one year.

The following table reflects incremental changes in the notional or contractual amounts of the Company's interest rate contracts during 1997 and 1996. Activity representing renewal of existing positions is excluded.

	September 30, 1996	Additions	Maturities/ Expirations	Terminations	**September 30, 1997**
Pay-floating swaps	$1,520	$2,479	$ —	$(1,913)	**$2,086**
Pay-fixed swaps	900	850	(200)	(600)	**950**
Swaption contracts	—	1,100	—	(800)	**300**
Option contracts	—	593	—	(593)	**—**
Spreadlock contracts	—	470	(470)	—	**—**
	$2,420	$5,492	$(670)	$(3,906)	**$3,336**

	September 30, 1995	Additions	Maturities/ Expirations	Terminations	September 30, 1996
Pay-floating swaps	$ 719	$1,195	$(115)	$ (279)	$1,520
Pay-fixed swaps	4,680	1,460	—	(5,240)	900
Forward contracts	—	93	(93)	—	—
Futures contracts	123	6	—	(129)	—
Option contracts	102	12	(40)	(74)	—
	$5,624	$2,766	$(248)	$(5,722)	$2,420

The impact of interest rate risk management activities on income in 1997 and 1996 and the amount of deferred gains and losses from interest rate risk management transactions at September 30, 1997 and 1996 were not material.

Foreign Exchange Risk Management The Company transacts business in virtually every part of the world and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to protect the value of its existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenues. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for each of the next five years. The gains and losses on these contracts offset changes in the value of the related exposures.

It is the Company's policy to enter into foreign currency transactions only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into foreign currency transactions for speculative purposes.

The Company uses option strategies which provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal cur-

rencies hedged are the Japanese yen, French franc, German mark, British pound, Canadian dollar, Italian lira and Spanish peseta. The Company also uses forward contracts to hedge foreign currency assets, liabilities and foreign currency payments the Company is committed to make in connection with the construction of two cruise ships (see Note 13). Cross-currency swaps are used to hedge foreign currency-denominated borrowings.

At September 30, 1997 and 1996, the notional amounts of the Company's foreign exchange risk management contracts, net of notional amounts of contracts with counterparties against which the Company has a legal right of offset, the related exposures hedged and the contract maturities are as follows:

	Notional Amount	Exposures Hedged	Fiscal Year Maturity
1997			
Option contracts	**\$3,460**	**\$1,633**	**1998–1999**
Forward contracts	**2,284**	**1,725**	**1998–1999**
Cross-currency swaps	**1,812**	**1,812**	**1998–2001**
	\$7,556	**\$5,170**	
1996			
Option contracts	\$5,563	\$3,386	1997–1999
Forward contracts	1,981	1,174	1997–1999
Cross-currency swaps	2,308	2,536	1997–2001
	\$9,852	\$7,096	

Gains and losses on contracts hedging anticipated foreign currency revenues and foreign currency commitments are deferred until such revenues are recognized or such commitments are met, and offset changes in the value of the foreign currency revenues and commitments. At September 30, 1997 and 1996, the Company had deferred gains of \$486 million and \$335 million, respectively, and deferred losses of \$220 million and \$307 million, respectively, related to foreign currency hedge transactions. Deferred amounts to be recognized can change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. The impact of foreign exchange risk management activities on operating income in 1997 was a net gain of \$166 million and in 1996 was not material.

Fair Value of Financial Instruments At September 30, 1997 and 1996, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate and foreign exchange risk management contracts.

At September 30, 1997 and 1996, the fair values of cash and cash equivalents, receivables, accounts payable and commercial paper approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	**\$ 769**	**\$ 1,174**	\$ 148	\$ 148
Borrowings	**(10,313)**	**(10,290)**	(12,342)	(12,270)
Risk management contracts	**257**	**437**	466	460
	\$ (9,287)	**\$ (8,679)**	\$(11,728)	\$(11,662)

Credit Concentrations The Company continually monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties. The Company would not realize a material loss as of September 30, 1997 in the event of nonperformance by any one counterparty. The Company enters into transactions only with financial institution counterparties which have a credit rating of A- or better. The Company's current policy in agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of credit exposure with any one institution. At September 30, 1997, financial institution counterparties posted collateral of \$210 million to the Company, and the Company was not required to collateralize its financial instrument obligations.

The Company's trade receivables and investments do not represent significant concentrations of credit risk at September 30, 1997, due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across many geographic areas, and the diversification of the Company's portfolio among instruments and issuers.

NOTE 13. COMMITMENTS AND CONTINGENCIES

During 1995, the Company entered into agreements with a shipyard to build two cruise ships for its Disney Cruise Line. Under the agreements, the Company is committed to make payments totaling approximately $625 million through 1999.

At September 30, 1997, the Company is committed to the purchase of broadcast rights for various feature films, sports and other programming aggregating approximately $5.2 billion. This amount is substantially payable over the next six years.

The Company has various real estate operating leases including retail outlets for the distribution of consumer products and office space for general and administrative purposes. Future minimum lease payments under these non-cancelable operating leases totaled $1.8 billion at September 30, 1997, payable as follows:

1998	$229
1999	222
2000	209
2001	195
2002	179
Thereafter	741

Rental expense for the above operating leases, including overages, common-area maintenance and other contingent rentals, during 1997, 1996 and 1995 was $327 million, $233 million and $135 million, respectively.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the Company to suffer any material liability by reason of such actions, nor does it expect that such actions will have a material effect on the Company's liquidity or operating results.

QUARTERLY FINANCIAL SUMMARY

(In millions, except per share data) (Unaudited)	December 31	March 31	June 30	September 30
1997				
Revenues	$6,278	$5,481	$5,194	$5,520
Operating income	1,562	864	1,060	961
Net income	749	333	473	411
Earnings per share	1.09	.49	.69	.60
Dividends per share	.11	.13	.13	.13
Market price per share				
High	76	78 1/8	84 1/2	80 15/16
Low	62 1/2	67 7/8	71 1/8	75 3/16
1996				
Revenues	$3,837	$4,543	$5,087	$5,272
Operating income	863	356	956	858
Net income (loss)	497	(25)	406	336
Earnings (loss) per share	.93	(.04)	.59	.49
Dividends per share	.09	.11	.11	.11
Market price per share				
High	62 7/8	69 3/8	65 5/8	63 5/8
Low	55 3/8	59 1/2	58 1/4	53 3/8

SELECTED FINANCIAL DATA

(Dollars in millions, except per share data)	1997	1996	1995	1994	1993
Statements of income					
Revenues	**$22,473**	$ 18,739	$12,151	$10,090	$ 8,531
Operating income	**4,447**	3,033	2,466	1,972	1,722
Income before cumulative effect of accounting changes	**1,966**	1,214	1,380	1,110	671
Cumulative effect of accounting changes	**—**	—	—	—	(371)
Net income	**1,966**	1,214	1,380	1,110	300
Per share					
Earnings before cumulative effect of accounting changes	**$ 2.86**	$ 1.96	$ 2.60	$ 2.04	$ 1.23
Cumulative effect of accounting changes	**—**	—	—	—	(.68)
Earnings	**2.86**	1.96	2.60	2.04	.55
Dividends	**.51**	.42	.35	.29	.24
Balance sheets					
Total assets	**$37,776**	$ 36,626	$14,606	$12,826	$11,751
Borrowings	**11,068**	12,342	2,984	2,937	2,386
Stockholders' equity	**17,285**	16,086	6,651	5,508	5,031
Statements of cash flows					
Cash provided by operations	**$ 7,064**	$ 4,625	$ 3,510	$ 2,808	$ 2,145
Investing activities	**(5,901)**	(13,464)	(2,288)	(2,887)	(2,660)
Financing activities	**(1,124)**	8,040	(332)	(97)	113
Other					
Stockholders at year end	**588,000**	564,000	508,000	459,000	408,000
Employees at year end	**108,000**	100,000	71,000	65,000	62,000

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants audit the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Review Committee composed of six non-management Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
The Walt Disney Company

In our opinion, the consolidated balance sheets (page 61) and the related consolidated statements of income (page 60), of cash flows (page 62) and of stockholders' equity (page 63) present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the "Company") at September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standard Board's Statement of Financial Accounting Standards 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," in fiscal 1996.

Price Waterhouse LLP

Los Angeles, California
November 18, 1997

SUPPLEMENTAL INFORMATION

STOCK EXCHANGES

The Common Stock of the Company is listed for trading on the New York (principal market) and Pacific Stock Exchanges. Certain debt securities of the Company are listed on the Luxembourg and Swiss Stock Exchanges.

REGISTRAR AND STOCK TRANSFER AGENT

The Walt Disney Company
611 N. Brand Boulevard, Suite 6100
Glendale, California 91203
(818) 553-7200

INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP, Los Angeles

OTHER INFORMATION

A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request.

A copy of the company's quarterly reports will be furnished without charge to any stockholder upon written or telephone request.

All written requests should be sent to Shareholder Services, The Walt Disney Company, 500 South Buena Vista Street, Burbank, California 91521-9722. Telephone requests can be made to (818) 553-7200.

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[3]Member of Executive Committee
[4]Member of Executive Performance Subcommittee of the Compensation Committee
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Executive Vice President-Corporate Affairs

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Kenneth P. Wong, President

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Gilles Pelisson, President and Chief Executive Officer

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Roy E. Disney, Chairman
Peter Schneider, President

Walt Disney Attractions
Richard A. Nunis, Chairman
Judson C. Green, President

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